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A woman pushes a wooden cart used to carry water containers in Salcedo, Eastern Samar (Photo: Jed Regala/Oxfam)

FINANCING FOR DEVELOPMENT IN THE PHILIPPINES

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As the Philippines approaches upper-middle-income status, it continues to face the challenge of fighting poverty and economic and gender inequalities, while also confronting COVID-19. Public debt is set to dramatically increase, and donors are likely to ramp up funding to help foster recovery from the pandemic. Transparency and accountability are essential to guarantee efficient and judicious use of funds. The Philippines might have to consider a "debt brake" if government borrowing exceeds manageable levels, and donors should emphasize grants over loans. Aid should focus on building self-reliance based on localization, untying assistance and support for progressive revenue-raising.

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FOREWORD: AID WITH A HUMAN FACE

The Philippine debt crisis during the early 1980s popularized the term "debt with a human face." The term led people to go beyond mere debt statistics—such as debt-to-GDP ratio, debt payments as a percentage of export earnings, the mix of foreign versus domestic borrowing—and to look at who eventually bears the burden of paying this debt and how it constrains the provision of social services. Funds that can or should be allocated to promote citizens' welfare—such as health, education, livelihoods, water, and sanitation—are eroded by the need to service debts resulting from wanton and untransparent borrowings. The face of people's suffering and poverty became as real as the magnitude of our country's debt.

Decades later, as the country tried little by little to wean away from borrowing and has, of late, succeeded in improving its revenue-raising capacity, the term "inclusive growth" has been thrown to center stage. Yes, there was growth, but that growth has not made a significant dent in income and wealth inequality. We still have a hollow middle where the industrial sector is vulnerable to external shocks and an agriculture sector that remains weakly integrated with the rest of the economy. And sadly, that growth could have been more inclusive had it been financed by more progressive forms of taxation and spending.

While the global health crisis brought about by COVID-19 made a lot of us realize that no one is safe unless everyone is safe, reality still bites. Global solidarity has been cast aside as individual countries scramble for vaccines; those who have the capacity to buy the vaccines have cornered the bulk of it.

As we at Social Watch Philippines, together with our friends and network members, try to discuss, debate, and look for ways to make global solidarity *the* reality rather than a mere aspiration, we are grateful for Oxfam's support to illuminate thinking on how countries that have the capacity to help can do so through more responsive and transparent ways of aid giving. We would like to see a global aid program that is more clearly aligned with the Sustainable Development Goals (SDGs) and with a greater focus on giving people the opportunity to live in sustainable cities and a less harsh, if not yet totally green, climate—in short, aid with a human face.

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ACRONYMS

4Ps	Pantawid Pamilyang Pilipino Program
ADB	Asian Development Bank
ADF	Asian Development Fund
APDRF	Asia Pacific Disaster Response Fund
ASG	Abu Sayyaf Group
AIIB	Asian Infrastructure Investment Bank
B+WISER	Biodiversity and Watersheds Improved for Stronger Economy and Ecosystem Resilience Program
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BBB	Build, Build, Build Program
BFP	Bureau of Fire Protection
BIR	Bureau of Internal Revenue
BJMP	Bureau of Jail Management and Penology
BOC	Bureau of Customs
BPfA	Beijing Platform for Action
BSP	Bangko Sentral ng Pilipinas
CARES	COVID-19 Active Response and Expenditure Support
CCT	Conditional Cash Transfer
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CPF	Country Partnership Framework
CPRO	COVID-19 Pandemic Response Option
CREATE	Corporate Recovery and Tax Incentives for Enterprises Act
CRS	Creditor Reporting System
CWR	Center for Women's Resources
DA	Department of Agriculture
DAC	Development Assistance Committee

DAI	Development Alternatives, Inc.
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DepEd	Department of Education
DFAT	Department of Foreign Affairs and Trade
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOH	Department of Health
DOLE	Department of Labor and Employment
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
ECOFISH	Ecosystems Improved for Sustainable Fisheries Project
ECQ	Enhanced Community Quarantine
EDC	Education Development Center
ERP	Emergency Response Project
EU	European Union
EURODAD	European Network on Debt and Development
FDI	foreign direct investment
FGD	Focus Group Discussion
FPW	Framework Plan for Women
GAA	General Appropriations Act
GAD	gender and development
GAP	Growth Analysis of the Philippines
GDP	gross domestic product
GEWE	Gender Equality and Women Empowerment Plan
GNI	Gross National Income
HDI	Human Development Index
HEAL	Health System Enhancement to Address and Limit COVID-19 Project
HGDG	Harmonized Gender and Development Guidelines
IATI	International Aid Transparency Initiative

IBRD	International Bank for Reconstruction and Development
ICMA	International City/County Management Association
IDA	International Development Association
IFC	International Finance Corporation
IHDI	Inequality-adjusted Human Development Index
IRA	internal revenue allotment
JICA	Japan International Cooperation Agency
KALAHI-CIDSS	Kapit-Bisig Laban sa Kahirapan – Comprehensive Integrated Delivery of Social Service
LEDAC	Legislative Executive Development Advisory Council
LIBOR	London Inter-Bank Offered Rate
MCC	Millennium Challenge Corporation
MIGA	Multilateral Investment Guarantee Agency
MG	Maute Group
MSMEs	micro-, small-, and medium-sized enterprises
NCR	National Capital Region
NCRFW	National Commission on the Role of Filipino Women
NEDA	National Economic and Development Authority
OCR	ordinary capital resources
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFW	overseas Filipino worker
OOFs	other official flows
PBSP	Philippine Business for Social Progress
PCW	Philippine Commission on Women
PDPW	Philippine Development Plan for Women
PIDS	Philippine Institute for Development Studies
PNP	Philippine National Police
PPE	personal protective equipment
PPGRD	Philippine Plan for Gender-Responsive Development
PPP	public-private partnership
PSA	Philippine Statistics Authority

RDC	Regional Development Council
RITM	Research Institute for Tropical Medicine
SAFER	Support the International Response to COVID-19 Action Plan
SAP	Social Amelioration Program
SARS-CoV-2	severe acute respiratory syndrome coronavirus 2
SDGs	Sustainable Development Goals
SDR	Sustainable Development Report
SMS	short message service
TRAIN	Tax Reform for Acceleration and Inclusion Act
UA	unprogrammed appropriations
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USD	US dollar
Women's EDGE	Women's Empowerment, Development and Gender Equality Plan

EXECUTIVE SUMMARY

The Philippines, like many developing countries, faces the challenge of fighting poverty and reducing economic and gender inequalities while also confronting the COVID-19 pandemic. Before the onset of the contagion, the Philippines had been approaching upper-middle-income country status, albeit with a mixed development record for the past two decades. Although it has enjoyed continuous and relatively rapid economic growth since the 2000s, the Philippines has failed to address the high level of inequality that has characterized its society for decades. The sustainability of the country's growth also comes into question given that it is lagging on its commitment to the 2030 Agenda for Sustainable Development. As the COVID-19 pandemic continues to ravage its key economic growth areas, two important questions remain unanswered: (1) To what extent will the needs for COVID-19 response and recovery impinge on the financing for reducing poverty and economic and gender inequality in the Philippines? (2) To what extent will the domestic needs of donor countries impinge on current and future commitments to the Philippines?

The sheer scale of the need for humanitarian intervention and recovery financing has raised questions about the Philippine government's ability to address the impacts of COVID-19 without neglecting the underlying issues of poverty and economic and gender inequalities. The Philippine economy contracted by 9.5 percent in 2020, and its ability to reclaim its pre-COVID growth momentum remains uncertain. It is also feared that the current crisis will undo the hard-earned accomplishments of the past. For instance, despite major advances in promoting gender equality and women's empowerment in the country, the number of economically insecure Filipino women increased from 16 million in 2019 to 19.54 million in 2020. The pandemic may also have reversed efforts to alleviate and reduce poverty; unemployment and underemployment are soaring as the government implements extreme public health and safety measures to control the spread of the virus.

Generally, official development assistance (ODA) has been a boon to financing for development in the Philippines. It is an important source of funds for the government's development programs and projects. As a lower-middle-income economy, the Philippines has access to concessional loans and grants from both multilateral institutions and bilateral partners. Over the 10-year period from 2009 to 2018, annual aid flows to the Philippines were generally stable, normally ranging from $1.59 billion to $2.25 billion a year. The Philippines received more in other official flows (OOF), however, than in ODA during this time. The growth of OOF was driven by loans from multilateral institutions, whereas ODA to the Philippines was channeled mostly through grants. The top 10 donors accounted for more than 90 percent of total aid disbursed to the Philippines from 2009 to 2018.

The issue of tied aid or tied loans—that is, aid or loans tied to the condition that the recipient procure goods or services from the donor—persists in the Philippines. Unsustainable government borrowing has led to periods of macroeconomic instability, but reforms to public financial management, including the adoption of debt sustainability management principles, led to a steady improvement in the country's fiscal and macroeconomic performance. This improvement gave President Rodrigo Duterte enough leverage to introduce much-needed tax reforms. While these changes—such as broadening personal income tax brackets and indexing taxes to inflation—led to a simpler, more flexible, and more efficient and responsive tax system, more reliance on excise taxes and a significant reduction in the corporate income tax rate (CIT) may have reduced its transparency and progressivity.

On the expenditure side, the government embarked on the Build, Build, Build (BBB) program, which seeks to accelerate infrastructure spending to 7.3 percent of gross domestic product (GDP) by the end of President Duterte's term of office in 2022. Although public-private partnerships (PPPs) play a major role in financing BBB, the program remains heavily reliant on ODA, especially since the onset of the COVID-19 pandemic. The transport sector is a clear priority for ODA funding to the Philippines year on year. Recently, disasters have led to spikes in aid for emergency response, reconstruction relief, and rehabilitation. Other sectors that received significant ODA funding over the 10-year period were multisector aid, which includes disaster risk reduction, government, education, agriculture, and health. The government sector is the standout priority for OOF. For the Philippine government the highest-priority sectors are education and transportation infrastructure. General administration, health, public order and safety, social welfare, domestic security, and agriculture and natural resources are the other sectors receiving major government funding.

The economic recession due to COVID-19 has led to a dramatic fall in public revenues, prompting the government to accelerate borrowing. Program and project loans for 2020 tripled from the amounts initially projected before COVID-19. Total public debt of the Philippines is set to dramatically increase until 2021 but is expected to remain manageable. Almost all new aid for COVID-19 is allotted for budgetary support financing. The Philippine Congress passed two COVID-19 response measures, Bayanihan I and II, which granted budget and procurement flexibility to the executive branch. After the budget was realigned and reallocated, the National Capital Region (NCR) received the largest allocation; the rest of the country received a smaller share of expenditures than NCR in the COVID-19 budget of 2020.

In 2021 the national budget was set at $90.8 billion, 9.9 percent higher than in the previous year. Of the budget for social services and economic services, the government earmarked $4.28 billion for the health sector, $22.3 billion for the infrastructure program, $2.37 billion for the agriculture sector and food security, and $46.3 million for small and medium enterprises. Financing from the Asian Development Bank (ADB) and the World Bank are accounted for in the budget for the health sector. These two Banks remain the biggest providers of development finance to the Philippines, followed by bilateral donors Japan, the United States, and Australia. With the exception of Australia, whose aid to the Philippines, composed mostly of grants, has remained stable over the years, these donors are expected to ramp up their funding as the Philippines continues to recover from the pandemic.

ODA has been and will remain an invaluable and dependable source of financing for development in the Philippines. Recovering from the effects of the pandemic as quickly as possible is crucial in returning the country to the development path. As the government bolsters its emergency spending in support of its COVID-19 response, ensuring transparency and accountability is important to guarantee that funds are being spent efficiently and judiciously. The utilization of funds, including development aid, should be aligned with and monitored against the achievement of development targets under the AmBisyon Natin 2040, the Philippine Development Plan (PDP), and the Sustainable Development Goals (SDGs). In 2021 the ratio of domestic to external borrowing by the government was set at 85:15, but when the situation normalizes the government borrowing mix should be returned to 75:25 to avoid crowding out private investment and potentially exacerbating inequality. The Philippines is expected to have record high deficits in 2020 and 2021. While sound macroeconomic fundamentals may cushion its impacts, the country might have to consider a "debt brake" if government borrowing exceeds manageable levels. Meanwhile, donors may emphasize grants in providing aid to the Philippines and other developing countries—whether lower- or middle-income countries—in this time of global health crisis. Development aid should also focus on building the self-reliance of recipient countries based on localization and the untying of financial assistance as well as support for transparent and progressive revenue-raising policies. This way, ODA can remain a potent and beneficial source of development financing for poverty reduction and economic and gender equality.

1 INTRODUCTION

Background and Rationale of the Study

This report focuses on the following issues:

1. **Understanding the effects of changing international finances on the Philippines' ability to fight poverty and reduce economic and gender inequality is crucial at a time when the government weighs its options for curbing the worst effects of the COVID-19 pandemic.** Before the outbreak of the pandemic, the global development finance landscape had been shifting quickly. Official development assistance (ODA) was becoming less and less relevant as a source of financing to some developing countries. Now the global community is wrestling with what this means for resources devoted to fighting poverty, economic inequality, and gender inequality, considering that ODA has often played a critical role in financing these efforts. As developing countries transition away from ODA, the increasing amounts of less concessional finance could present challenges to the traditional ways the government and its development partners finance the fight against poverty, economic inequality, and gender inequality.
2. **Philippine development performance in the past two decades has been mixed despite the country's notable economic growth during that period.** This makes the halt in economic expansion brought about by the COVID-19 pandemic particularly disturbing. On March 16, 2020, as the spread of the disease accelerated, President Rodrigo Duterte declared a state of calamity throughout the country. This was followed by the closing down of non-essential businesses and extreme restrictions in the movement of people under the Enhanced Community Quarantine (ECQ) imposed by the government. Initially enforced all over the country, the ECQ was in effect in the National Capital Region (NCR) for two and a half months. Provinces in the adjoining central and southern Luzon regions were in ECQ for at least two months, while the rest of the country was in ECQ for a month.
3. **With the effects of COVID-19, which are unprecedented in magnitude and scale, now sweeping the international community, two main questions emerge: (a) To what extent will the need for financing for the Philippines' COVID-19 response and recovery impinge on the financing for reducing poverty and economic and gender inequality? (b) To what extent will the domestic needs of donor countries impinge on current and future commitments to the Philippines?** This study analyzes aid data to show whether the government and its development partners are continuing to prioritize the reduction of poverty and inequalities or whether competing priorities are diverting resources from these goals. The worst impacts of COVID-19 are likely to be felt in the foreseeable future across countries, and the arguments for decisions that inspire global solidarity become all the more cogent.

The Philippine Development Situation

In 1993 the Philippines officially became a lower-middle-income country, signaling an era of accelerating GDP growth. Yet with this increasing productivity, the Philippines has also faced growing inequality, including gender inequality. Throughout the decades, ODA has played a significant but diminishing role in supporting the country's economic expansion. From 1990 to 2018, ODA as a share of gross domestic product (GDP) decreased from 2.9 percent to 0.4 percent. [1]ODA providers have also adopted evolving approaches to supporting the country in the fight against poverty, socioeconomic inequality, and gender inequality amid the evolving landscape of development finance.

Enjoying impressive economic growth in the past two decades by its own historical standards, the Philippines was on the cusp of becoming an upper-middle-income country when the COVID-19 pandemic struck in the first quarter of 2020. From 2001 to 2019 the country's average annual GDP growth rate was 5.5 percent, marking a sustained and relatively rapid expansion compared with its performance in previous decades. From 2012 to 2019, growth was even faster, averaging 6.6 percent a year.

This recent economic expansion appears to have contributed considerably to poverty reduction and human development. The proportion of Filipinos under the national poverty line shrank from more than a quarter of the population in 2006 to 16.6 percent in 2018. The country's Human Development Index (HDI) also improved from 0.633 in 2001 to 0.718 in 2019. The Philippines has been classified at a high level of human development since 2015, after lingering at medium level of human development from 1990, when the UNDP started tracking the index, until 2014[2].

Inequality, however, remains a major concern. When the country's HDI is adjusted for inequality, it is only 0.587, a whopping 18.2 percent drop from its non-adjusted rating.[3] Taking inequality into account, the Philippines actually ranks toward the tail end of countries at the medium level of human development. Among Southeast Asian countries, Indonesia and Vietnam have comparable levels of IHDI to the Philippines. Interestingly, the country's IHDI is the same as the global average.

The country has also been lagging on its commitment to the 2030 Agenda for Sustainable Development, according to data from the Sustainable Development Report 2019.[4] The report is a global assessment of countries' progress toward achieving the Sustainable Development Goals (SDGs) and is intended as complement to the official SDG indicators and the voluntary national reviews. According to the Sustainable Development Report 2019, the Philippines is on track to achieve only 2 of the 17 goals (Table 1): SDG 1 (No Poverty) and SDG 13 (Climate Action). It is moderately improving in five of the goals, stagnating in six, and even registered a decline in SDG 4 (Quality Education) and SDG 15 (Life on Land). No data were available for SDG 10 (Reduced Inequalities) and SDG 12 (Responsible Consumption and Production).

Table 1: The Philippines' progress on meeting the 17 Sustainable Development Goals (SDGs)

Goal	Current Assessment	Performance Trend
SDG 1: No Poverty	Significant challenges remain	On track or maintaining SDG achievement
SDG 2: Zero Hunger	Major challenges remain	Moderately improving
SDG 3: Good Health and Well-Being	Major challenges remain	Moderately improving
SDG 4: Quality Education	Challenges remain	Decreasing
SDG 5: Gender Equality	Significant challenges remain	Stagnating
SDG 6: Clean Water and Sanitation	Significant challenges remain	Moderately improving
SDG 7: Affordable and Clean Energy	Significant challenges remain	Stagnating
SDG 8: Decent Work and Economic Growth	Significant challenges remain	Moderately improving
SDG 9: Industry, Innovation and Infrastructure	Major challenges remain	Moderately improving
SDG 10: Reduced Inequalities	Major challenges remain	Trend information unavailable
SDG 11: Sustainable Cities and Communities	Significant challenges remain	Stagnating
SDG 12: Responsible Consumption and Production	SDG achieved	Trend information unavailable
SDG 13: Climate Action	Challenges remain	On track or maintaining SDG achievement
SDG 14: Life below Water	Significant challenges remain	Stagnating
SDG 15: Life on Land	Significant challenges remain	Decreasing
SDG 16: Peace, Justice and Strong Institutions	Major challenges remain	Stagnating
SDG 17: Partnerships for the Goals	Significant challenges remain	Stagnating

Source: Sustainable Development Report 2019.

The government's response to the pandemic has had profound public health and economic consequences. While some observers agree that the government's actions prevented or at least delayed the spread of COVID-19, allowing the health system to adequately prepare its response, it is undeniable that the severe restrictions imposed by the government had a drastic effect on the economy.[5] The NCR and the central and southern Luzon regions, where national economic activity is highly concentrated, went through the longest period under the strictest quarantine category. Businesses were allowed to open gradually starting in June 2020 but still do not operate at full capacity anywhere in the country. Large mass gatherings were still prohibited nationwide as of January 2021.

The sheer scale of humanitarian need and recovery financing has raised questions about the government's ability to respond to the impacts of COVID-19 in ways that will address the underlying issues of poverty and economic and gender inequalities. The changing development finance landscape raises key concerns. First, the shift from grant forms of ODA (highly concessional finance) to loans (non-concessional) risks increasing the country's debt burden. This situation may cause the government and donors to shift available resources toward investments that guarantee higher rates of return and, in turn, could lead to less financing for social sectors that are proven to help fight poverty. It may be possible to combine a healthy rate of return with poverty reduction; for example, the government's conditional cash transfer program, which provides cash to families that meet conditions related to children's school attendance and maternal care, is funded through blended finance (government budget and foreign loans), so the rate of return is a consideration.

The Philippine economy contracted by 9.5 percent in 2020, although the decline slowed from –16.9 percent in the second quarter to –8.3 percent in the fourth quarter.[6] It is becoming clearer that economic recovery will be more U-shaped than V-shaped, even as some pundits expect it to regain its lost vitality in late 2022 at the earliest.[7] In any case, the pandemic has had a profound impact on how growth and development are to be pursued from this point forward. Enterprises are forced to rethink their business models as industries experience dramatic shifts in their economic importance. Labor was particularly affected: unemployment peaked at 17.6 percent in April 2020 and eased down to 8.7 percent in October 2020, where it has remained as of January 2021. However, several sectors such as transportation, tourism, and leisure continue to have limited operations. Underemployment remains at 16 percent in January 2021 after reaching 18.9 percent in April 2020.[8]

Some economists predict not a V-shaped or U-shaped recovery, but a K-shaped one. They anticipate that the growth trajectories of different segments of the economy post-COVID-19 will follow diverging paths. The pandemic clearly does not affect the various economic sectors equally. Several industries are expected to recover quickly and perform well thereafter, while other industries will continue to decline. For instance, the profitability of technology, online retail, and digital financial services have skyrocketed during the pandemic while the travel, tourism, and entertainment industries have seen a prolonged contraction.[9] This asymmetric impact will worsen inequality, especially in the Philippines, where a significant proportion of workers earning a living wage or lower are employed in services that are adversely affected by the pandemic.

The ability of the Philippine economy to reclaim its pre-COVID-19 growth momentum remains uncertain. Without rapid economic expansion, pursuing sustainable and inclusive development may prove to be even more difficult. Worse, previous gains might have already been reversed. Radical shifts in the economy within a short period of time have varying effects on the different income classes, likely exacerbating inequality and driving the hardest-hit households toward intergenerational poverty.

National Development Goals and Strategy

While most societies aspire to translate economic growth into sustainable and inclusive development, each country takes a different approach toward this goal. How a state defines and performs its economic coordination function has a significant effect on how resources are allocated and what services are produced and consumed in the economy. As a mixed and relatively open economy that has been dubbed one of the most dynamic in the East Asia–Pacific region,[10] the Philippines assigns an important role to the private sector in pursuing economic growth and national development. Article II, section 20 of the 1987 Philippine Constitution declares that the "State recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments." Nonetheless, the public sector plays a crucial part in development planning and coordination. National development planning has a long tradition in the Philippines dating back to 1935, when the National Economic Council (NEC) was created in recognition of the need for a central planning body capable of generating rapid and balanced socioeconomic development. This was followed by the creation of the Program Implementation Agency (PIA) and its successor agency, the Presidential Economic Staff (PES), in 1962 and 1966, respectively. After declaring martial law in 1972, former president Ferdinand Marcos consolidated the various economic agencies into one planning body, now known as the National Economic and Development Authority (NEDA).[11]

Medium-term development plans were formulated and implemented by each presidential administration after the Americans ceded colonial control over the islands shortly after World War II. This planning process was initially conceptualized as a blueprint for repairing the damage brought about by the war. Succeeding plans incorporated whatever growth models or development frameworks from the West were then current, from the Harrod-Domar Model[12] to the 2030 Agenda for Sustainable Development. The plans also articulated the development visions of the political leadership that crafted them. After the regime of former dictator Ferdinand Marcos, national development plans attempted to increase the involvement of the private sector and civil society in the work of sectoral development planning committees. There were also attempts to strengthen the linkage between the executive planning function and the legislative budgeting process through the creation of the Legislative-Executive Development Advisory Committee (LEDAC). The push for decentralization was also evident in the establishment of regional development councils (RDCs), whose membership is dominated by provincial governors and city mayors. The effectiveness of these mechanisms, however, depends heavily on the political space afforded to them by the presidential administration. Whether because of fundamental flaws in the plans themselves or because of failures of coordination and implementation, visions expressed in the plans have seldom translated into reality. Some point out that the plans and their implementation suffered from lack of continuity, with a new one being adopted every time a new president was elected to office.[13]

Partly for this reason, the NEDA launched the AmBisyon Natin 2040 initiative in 2015. Through surveys and focus group discussions, NEDA reached out to citizens, especially youth, to understand how Filipinos envision national development in the long term.[14] The results of this study served as the basis for NEDA to conclude that what Filipinos aspire to in 2040 is achieving a strongly rooted, comfortable, and secure life (matatag, maginhawa, at panatag na buhay).

The administration of President Duterte was the first to have the opportunity to incorporate this finding in its development plan. The Philippine Development Plan 2017–2022 was anchored on the following vision statement:

By 2040, the Philippines is a prosperous middle-class society where no one is poor. People live long and healthy lives and are smart and innovative. The country is a high-trust society where families thrive in vibrant, culturally diverse, and resilient communities.[15]

The plan builds on the administration's 0–10 Point Socioeconomic Agenda, with the following elements:

0. peace and order;
1. continue and maintain prevailing macroeconomic policies, including fiscal, monetary, and trade policies;
2. institute progressive tax reform and more effective tax collection, indexing taxes to inflation;
3. increase competitiveness and ease of doing business;
4. accelerate annual infrastructure spending to account for 5 percent of GDP, with public-private partnerships (PPPs) playing a key role;
5. promote of rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism;
6. ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies;
7. invest in human capital development, including health and education systems, and match skills and training to meet the demand of business and the private sector;
8. promote science, technology, and the creative arts to enhance innovation and creative capacity toward self-sustaining, inclusive development;
9. improve social protection programs, including the government's Conditional Cash Transfer (CCT) program, to protect the poor against instability and economic shocks; and
10. strengthen the implementation of the Responsible Parenthood and Reproductive Health Law to enable especially poor couples to make informed choices on financial and family planning.[16]

A farmer inspects her rice field in Milaor, Camarines Sur, one of the hardest hit areas by the Super Typhoon Rolly (Goni) in November 2020. (Photo: Juanito Bantong/Oxfam)

Gender and Development Mainstreaming

Since the 1980s gender mainstreaming and development has been an important approach to advance gender equality and women's empowerment in developing countries like the Philippines. The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) recommended that donors adopt a twin-track approach to gender equality in their development cooperation portfolio. This approach combines gender mainstreaming (activities targeting gender equality as a "significant" objective) and dedicated programs or projects for gender equality and women's empowerment (activities targeting gender equality as a "principal" objective). In 2015–2016 the Philippines received $1.245 billion,[17] making it the third-largest recipient of the total aid targeting gender equality and women's empowerment as either a principal or a significant objective.[18] According to the World Economic Forum's Global Gender Gap Report 2020, the Philippines is ranked 1st in Asia and 16th in the world in terms of closing the gender gap.

The Philippines' decades-long high score in the Gender Gap Index is hard earned and can be credited to the continuous fight of women, especially working-class women, for equality and empowerment. These women have relentlessly sustained the call to uphold their democratic rights and have opened up discussions on issues concerning women. Through women's efforts, the country has produced more than 37 laws and executive and administrative orders on the protection and development of women. In the latest poll, the Philippines—once a consistent member of the top 10 in the Gender Gap Index—has fallen 8 spots to rank 16th.[19] According to the survey, the country is improving in three of the four dimensions of the index: economic participation and opportunity, educational attainment, and health and survival. In contrast, the country has widened the gap in political empowerment for the past two years. The study attributed this result to lower female representation in government positions. Nonetheless, political participation should not be focused on representation in government positions alone; it also involves participation in community activities and assertion of democratic rights. Since 2016 women have reported that they lack safe spaces and an enabling environment.

The 1992 Women in Development and Nation Building Act (Republic Act No. 7192), which mandated equal rights and opportunities for women and men, institutionalized gender mainstreaming in Philippine development planning. The law uses three approaches to achieve its objectives: (1) government agencies must set aside and use a substantial allocation from ODA funds to support programs and activities for women; (2) the government must guarantee that women benefit equally from and participate directly in the development programs and projects of its agencies; and (3) all government agencies must perform gender mainstreaming and review and revise their regulations, circulars, issuances, and procedures to remove gender bias. The law assigned the NEDA and the National Commission on the Role of Filipino Women (NCRFW)—now known as the Philippine Commission on Women (PCW)—responsibility for monitoring the gender-mainstreaming efforts of government departments. Specifically, NEDA is responsible for tracking the gender-responsiveness of ODA allocations.

The country's gender-mainstreaming strategy involved the implementation of gender-focused plans. The first was the Philippine Development Plan for Women (PDPW) 1989–1992, formulated during the administration of President Corazon C. Aquino, the country's first female head of state. This was followed by the Philippine Plan for Gender Responsive Development (PPGRD) 1995–2025. Adopted through Executive Order No. 273 issued by President Fidel V. Ramos on September 9, 1995, this 30-year plan required agencies to mainstream gender and development (GAD) concerns into their planning, programming, and budgeting processes. It was supported by three medium-term framework plans: the Framework Plan for Women (FPW 2004–2010), Women's Empowerment, Development, and Gender Equality Plan (Women's EDGE 2013–2016), and Gender Equality and Women Empowerment Plan (GEWE 2019–2025). These framework plans were translations of the state's commitment to international agreements, such as the United Nations (UN) Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Beijing Platform for Action

(BPfA). They also reflected the gender-responsive provisions of the Philippine Development Plan at the time of their formulation. The NCRFW/PCW was responsible for formulating the GAD plans.

The 1995 General Appropriations Act (GAA), the first to include what is now known as the GAD Budget Policy, was a pioneering piece of legislation on gender-responsive budgeting in the Asia-Pacific region.[20] The GAD Budget Policy requires government agencies and subnational governments to set aside at least 5 percent of annual budget appropriations for GAD activities. This provision traces its roots to the 1992 Women in Development and Nation Building Act, which mandated the use of ODA allocation for GAD purposes. The GAD budget, included annually in the GAA since 1995, is an essential element in the successful implementation of the gender-mainstreaming strategy. The ODA funding and domestic budget allocation for GAD mainstreaming constitute the two facets of the country's GAD budget policy. The Department of Budget and Management (DBM), NEDA, and PCW monitor the implementation of the GAD Budget Policy. Government agencies submit their annual GAD plans and budgets to PCW and DBM. During its early years of implementation, however, the GAD budget was criticized as inefficient and wasteful as it was "used in some cases to support events such as aerobics classes, cooking lessons, ballroom dancing, and office outings."[21] Nonetheless, some projects genuinely benefited women's groups, like small loans for women's livelihood projects, education workshops on women's human rights and gender issues, establishment of local women's centers for addressing women's health and violence against women, advocacy of GAD efforts, and support for citizenship actions by local women's organizations. Still, concerns have persisted about the continuity of GAD projects, which remained susceptible to changes in administration; the inadequacy of funds dedicated to GAD activities; the uncertain impacts of small loans on poor women; and the uncertainty over whether the benefits are reaching the poorest women in the poorest regions.[22]

Republic Act No. 9710 (RA 9710), also known as the Magna Carta of Women, was signed into law by President Gloria Macapagal-Arroyo on August 14, 2009. This law called for the stronger enforcement of women's rights and the promotion of equal opportunities for women. A review of the GAD Budget Policy in 2010, however, revealed low compliance and poor-quality plans and reporting systems on the part of agencies.[23] Another study cited the following problems:

- lack of clear budgeting guidelines, including guidelines on sources of gender funding and instructions for gender analysis;
- poor budget execution and accounting, including poor budget utilization, auditing of the gender budget, and linking of the budget to results;
- poor analysis of regular agency programs and projects (funding for whole programs was attributed to GAD with little or no gender analysis);
- lack of technical assistance on gender analysis, planning, and budgeting;
- low involvement of stakeholders in ensuring the successful implementation of gender plans and budgets;
- and inadequate sex-disaggregated data and statistics.24

The implementing rules and regulations of the Magna Carta of Women tried to address many of the issues regarding gender planning and budgeting. Those were followed by several joint memorandum circulars from PCW, the Department of the Interior and Local Government (DILG), DBM, and NEDA, which provided additional guidelines on its implementation.

The PCW, NEDA, and DBM issued Joint Circular 2012-01, which prescribed guidelines and procedures in implementing the Magna Carta of Women and addressed issues in GAD budget policy execution. The joint circular introduced the Harmonized Gender and Development Guidelines (HGDGs) to help government agencies determine which of their regular programs can be attributed to GAD. The HGDGs score an agency program or project using a set of indicators focusing on 10 areas of concern:

1. involvement of women and men;
2. collection of sex-disaggregated data and gender-related information;
3. conduct of gender analysis and identification of gender issues;
4. gender equality goals, outcomes, and outputs;
5. matching of strategies with gender issues;
6. gender analysis of likely impacts of the project;
7. monitoring targets and indicators;
8. sex-disaggregated database requirement;
9. resources; and
10. relationship with the agency's GAD efforts.

Depending on the total points scored by the program or project, it may be classified as GAD invisible, gender sensitive, or gender responsive. This tool has allowed agencies to assign a monetary value to gender integration work to ensure the gender-responsiveness of a program or project, which increased their GAD budgets as a percentage of total agency budgets. Still, a 2016 study of the GAD Budget Policy revealed persistent issues with gender mainstreaming. These include the limited transparency of GAD plans and budgets, the focus on the 5 percent GAD budget as a separate allocation vis-à-vis the gender responsiveness of the agencies' total budget, and agencies' inability to conduct adequate gender analysis on mainstream programs and projects, in part because of the low availability of GAD experts and practitioners.[25]

A couple taking a break from their household work. (Photo: Jed Regala/Oxfam)

From 2013 to 2015 annual GAD allocations exceeded $1 billion. Although GAD expenditures trended upward from 2010 to 2015, their utilization had been erratic (Table 2). PCW attributed the phenomenon largely to inconsistent reporting, noting that government agencies sometimes submit GAD plans and budgets but do not turn in their accomplishment reports, or vice versa, in a given year.[26] Thus, PCW warned that data on GAD allocations and utilization rates may not be accurate.

Table 2: GAD allocations and utilization, 2002–2015

Year	GAD allocation (USD million)	Utilization (%)
2002	6	37
2003	10	11
2004	32	43
2005	12	30
2006	17	82
2007	33	182
2008	43	218
2009	no data	no data
2010	30	236
2011	131	333
2012	325	284
2013	1,086	84
2014	2,734	49
2015	1,918	98

Source: M.K.V. Delgado, Gender-Responsive Planning and Budgeting at the National Level: The Philippine Experience, PowerPoint presentation, Philippine Commission on Women, undated, https://www.unescap.org/sites/default/files/2.%20The%20Philippines.pdf (last accessed 1 May 2021); J. Illo, J. Encinas-Franco, J. Villasenor, M. Leyesa, and F. de los Trino, Accounting for Gender Results: A Review of the Philippine GAD Budget Policy (Quezon City: Miriam College, 2010)

In line with its mandate under RA 7192 and RA 9710, the NEDA has been tracking the gender responsiveness of ODA-assisted programs and projects using the HGDGs. The NEDA reported that from 2017 to 2019 gender-responsive and gender-sensitive projects received $23.78 billion, or 77 percent of total ODA (Table 3). Another 18 percent ($5.62 billion) of aid went to projects with promising GAD prospects while only 5 percent ($1.52 billion) was allocated to GAD-invisible projects. The social reform and community development sector received the largest share of gender-responsive and gender-sensitive projects.

Table 3: Gender responsiveness of and spending on ODA-assisted projects, 2017–2019

Year	Gender-responsive		Gender-sensitive		With promising GAD prospects		GAD invisible	
	Number	*Total project cost (USD million)*	*Number*	*Total project cost(USD million)*	*Number*	*Total project cost (USD million)*	*Number*	*Total project cost (USD million)*
2017	10	2,173.26	10	501.97	9	1,516.30	2	206.57
2018	17	8,998.27	15	655.43	13	1,943.14	13	876.73
2019	12	10,792.84	11	658.57	12	2,158.26	5	435.03

Source: National Economic and Development Authority (NEDA), Official Development Assistance, https://www.neda.gov.ph/official-development-assistance-page/ (last accessed 1 May 2021), p. 19.

According to the Center for Women's Resources (CWR), the number of economically insecure Filipino women increased from 16 million in 2019 to an estimated 19.54 million in 2020.[27] Most working women are daily wage earners, and the pandemic lockdown reduced their wages below the minimum wage, reducing the capacity of working women and their families to cope with the pandemic. Furthermore, women face challenges in getting access to health care. The privatization of hospitals and health care makes it more difficult for women to access high-quality health services. Compared with other sectors of the national budget, the health sector has a meager share, accounting for less than 2 percent of the country's GDP.[28] The 2021 national budget for health pales in comparison with spending on defense and infrastructure. The budget reflects a short-term response to the pandemic and ongoing privatization of the public health care system. According to news reports, the 2021 health department budget is $400 million lower than its 2020 budget of $3 billion.[29]

Privatization of state hospitals and facilities has already reduced the limited number of public hospitals, from 730 in 2010 to 433 in 2018. With fewer state hospitals, which now also have to focus on attending to COVID-19 patients, other health concerns, including the reproductive health of women, have been sidelined. A study conducted by the United Nations Population Fund (UNFPA) revealed that 5.168 million, or 67 percent, of Filipino women of reproductive age 15 to 49 are unable to access family planning services. Accordingly, the study estimated that unintended pregnancies would reach 2.5 million by the end of 2020.[30] Although the Gender Gap Index study mentioned that Filipino women can have good health longer than men, there is a strong possibility that women's health status will change with the spread of the virus, especially now that COVID-19 cases have surpassed 1 million.[31] Seven out of 10 people working in the health sector are women, who are also experiencing a gender wage gap. As of February 2021, 14,776 health workers had been infected by COVID-19.[32]

A rural health unit in Datu Saudi Ampatuan, Maguindanao. (Photo: Eleanor Farmer/Oxfam)

Philippine fiscal policy instruments serve as the government's primary tools in achieving its development targets. As the past experiences of various countries, including the Philippines, have shown, these mechanisms must be used carefully in pursuing development goals, as miscalculations can lead to serious macroeconomic instability. For more than a decade, the Philippines has been able to maintain sound macroeconomic fundamentals. Like most modern economies, the Philippines operates monetary policy through an independent central bank whose main goal is to maintain price stability. It is usually not expected to perform a significant role in promoting development so that it is shielded from political intervention as much as possible. Fiscal policy therefore takes on a much larger part in the government's development strategy.

Past macroeconomic stability gave the administration of President Duterte enough leverage to introduce much-needed tax reforms. The enactment of the Tax Reform for Acceleration and Inclusion (TRAIN) law came 20 years after the last comprehensive tax reform program was ratified in 1997. The new revenue law updated income tax rates, broadened the tax base, simplified the computation and administration of several taxes, and indexed consumption tax rates to inflation. Several critics pointed out, however, that the tax reform package led to a steeper rise in commodity prices, likely making it more difficult for the poor to improve their quality of life.[33] It should be noted that before implementation of the TRAIN act, the Philippines was experiencing record low levels of inflation despite the rapid economic growth. The recent emphasis on excise taxes, including on petroleum products and sweetened beverages, has exacerbated inflation while decreasing the transparency of taxation through fiscal illusion. Fiscal illusion refers to the tendency of taxpayers to systematically misperceive their tax burdens when taxes "are included in the cost of goods, and taxpayers may not know what portion of the price the tax constitutes or even that they are being taxed at all."[34]

Another set of tax adjustments under the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) was enacted in March 2021. That law reduced corporate income tax rates from 30 to 25 percent and streamlined fiscal incentives to investment. The corporate income tax rates for micro, small, and medium enterprises (MSMEs) were pushed down even lower, to 20 percent. The Department of Finance (DOF), which dubbed the tax reform law the "largest fiscal stimulus program for enterprises in the country's history," is hopeful that CREATE will improve the country's ability to attract investments.[35] Former socioeconomic planning secretary Solita Monsod, however, pointed out that the reduction in corporate tax rates will deprive the government of much-needed resources to help people cope with COVID-19. Further, she noted that although MSMEs comprise 99.5 percent of the total number of establishments in the country (1,000,506), only 2 percent of them will benefit from CREATE, as the overwhelming majority of these businesses are not incorporated. Large enterprises, which make up the remaining 0.5 percent, are set to enjoy huge tax cuts. Monsod also expressed concern about whether enterprises will invest the estimated $12 billion in forgone government revenue over the next five years in revitalizing their businesses and creating more jobs for Filipino workers, as the DOF assumes.[36]

On the expenditure side, the administration of President Duterte embarked on the Build, Build, Build (BBB) program, which seeks to raise infrastructure spending to 7.3 percent of GDP by the end of his term in 2022. Greatly needed investments in infrastructure have been largely neglected since the 1980s, as the Philippines grappled with one fiscal and financial crisis after another until the late 2000s. Debt servicing and interest payments often accounted for higher budget shares than capital outlays during this period. Rapid population growth starting in the 1960s meant that social spending, especially on education, which is given constitutional priority, received the bulk of public expenditures. The enactment of the Local Government Code of 1991 earmarked a significant portion of annual national revenues to subnational government subsidies, further eroding the fiscal space for capital spending. Partly for these reasons, most infrastructure projects in recent decades were foreign assisted, emphasizing the role of ODA as a stable source of development funding for the Philippines.

Public-private partnerships play a significant role in financing BBB, but the program remains heavily reliant on ODA, especially after the onset of the COVID-19 pandemic. While PPPs were identified as important funding sources for the BBB program under President Duterte's 0–10 Point Socioeconomic Agenda, only 29 percent of the $86 billion cost of approved projects is planned to be funded through this scheme. ODA was slated to fund 49 percent of the total amount, while the remaining 22 percent would be funded from government coffers. Some observers criticized the government's steadfast commitment to the BBB program amid the pandemic, calling for the government to instead prioritize health-related responses to COVID-19.[37] The country's economic managers, however, remain steadfast in their decision, stating that the infrastructure budget will be "the last item that we will touch." Finance Secretary Carlos Dominguez III insists that the BBB could serve as a feasible stimulus for economic recovery, claiming that infrastructure spending remains the "best driver for economic growth" as it has the "best multiplier effects in terms of employment and shared prosperity." Snags in implementation, however, have caused the program to proceed slowly since even before the pandemic. For instance, the master list of projects had to be modified as some of the planned big projects—which eventually turned out to be infeasible—were replaced with smaller, more doable ones.[38] Further, in 2019 Congress set the annual budget for capital outlay ($14.07 billion) lower than what was proposed by the executive branch ($15.52 billion).[39] The low rate of disbursement of BBB funds—less than half of total obligations on average from 2017 to 2019—by the two agencies mainly responsible for the program, the Department of Public Works and Highways (DPWH) and the Department of Transportation (DOTr), "signals slow, inefficient project implementation."[40] In a 2019 report, the International Monetary Fund (IMF) assessed that "the Philippines could generate more and better infrastructure with similar public capital stock per capita by reducing the cost of producing infrastructure. Increasing public investment management efficiency to make the most of this spending is critical for the Philippines to achieve its infrastructure needs."[41]

Given the pandemic's effects on consumption, private investment, trade, and—most important in this case—government revenues, ODA is expected to continue to play a central role in financing infrastructure going forward. Donors and the Philippine government should both ensure that measures are in place to prevent large infrastructure projects funded by foreign loans from forcing the dislocation of affected communities (especially indigenous peoples, small farmers, and rural communities) and causing widespread ecological harm through the destruction of natural resources. Loan provisions must also not bind the government to fiscal restraints related to social protection measures such as universal health care, free education, affordable housing, and access to water and power.

The Pantawid Pamilyang Pilipino Program (4Ps) serves as the Philippines' national poverty reduction strategy and human capital investment program. The 4Ps is the fourth-largest CCT program in the world in terms of population coverage. It is funded by the national government with the support of loans from foreign sources.[42] Between 2008 and 2020, the 4Ps increased coverage from 282,917 to 4,291,393 household beneficiaries. Consequently, the annual budget allocation for the program grew rapidly from $5.68 million to $2.07 billion. Within the implementation period of 2016 to 2022, total foreign financing programmed for the 4Ps amounts to $750 million. Owing to implementation delays, however, the government incurred commitment fees amounting to $550,000 in 2018.

As a result of the extensive effort to mainstream GAD in the CCT program, NEDA classified ODA funding support to 4Ps as gender responsive using the HGDG criteria. The 4Ps GAD Framework of the Department of Social Welfare and Development (DSWD), which implements the CCT program, emphasizes providing "opportunities for women to transcend beyond her traditional reproductive and stereotypical roles by building her awareness of her basic rights, her capacities and potentials for active community participation and leadership."[43] Women composed the majority of CCT grantees, at 86.4 percent in 2019. According to a 2010 Asian Development Bank (ADB) report, direct payment of CCTs to mothers raised their bargaining power within the household and improved health and education outcomes for female children and pregnant women.[44] In truth, however, the 4Ps program primarily targets the welfare and development of children, including the unborn, with mothers taking responsibility for serving their needs by acting as stipendiaries.[45] Effectively serving as co-implementers of the program, mothers take children to regular health checkups, ensure their children's attendance at school, attend health and other seminars, and sometimes even provide community service. From this perspective, women actually take on an additional burden by being the primary beneficiaries of the 4Ps, while fathers/husbands who are marginalized from the program are also effectively sidelined from the care of the children and other additional responsibilities.

Women in the Philippines remain one of the poorest groups in the country. This is because women work in precarious conditions where most are in contractual, unstable, and low-income jobs. These jobs are also the hardest hit by the quarantines imposed by the government to halt the spread of the COVID-19 pandemic. To mitigate the effects of business closures and loss of jobs, the Department of Social Welfare and Development (DSWD) has been tasked with issuing an emergency cash subsidy called the Social Amelioration Program (SAP), which includes 4Ps beneficiaries. The SAP program was expected to distribute cash aid of $100–160 for two months and in tranches, prioritizing poor households. By April 2020 the Department of Budget and Management (DBM) had released half of the $4 billion pledged by the government to some 18 million poor households.[46]

However, confusion and complaints have surrounded the implementation of the program. Distribution has been delayed, and the list of beneficiaries has been reduced despite the government's acknowledgement that millions could not go back to work. Many of the 18 million poor households, plus an additional 5 million wait-listed families, have yet to receive the full allotment. Further, delayed release of implementation guidelines has confused 4Ps beneficiaries and other poor families.[47] The government's research agency, the Philippine Institute for Development Studies (PIDS), has noted that even with the SAP, about 2.8 million Filipinos will become poor as a result of the pandemic. Thus, there is a need to address the long-term impact of the pandemic on poverty. PIDS has estimated that poverty incidence will spike at between 15.5 and 17.5 percent in 2021.[48]

The impact of the pandemic is increasing the number of poor in the country. With current incomes remaining below pre-pandemic levels, low-income households have had difficulty coping with the steady increase in the prices of food and other basic commodities. With more families living below the poverty threshold of $215 a month (2018 government estimate for a family of five), many households with diminished incomes are likely to become chronically poor. For cultural reasons, women bear the burdens of caring for family members and doing domestic work. They are also the ones who promptly look for other means to augment the meager family income and resort to loans that they can barely repay. They end up falling into a debt trap, borrowing money just to pay their outstanding loans.

Quarantine measures on travel and social distancing disrupted the food supply chain, especially in the early months of the pandemic, and some challenges have lingered. The resulting closures of agribusiness establishments have hampered the ability of farmers and fisherfolk to secure inputs. Stoppages in the operation of banks and creditors have affected the financing of agricultural production. Other workers across the food supply chain have had difficulties reporting for work because of the lack of public transportation. Though considered essential, some food businesses remain closed owing to anticipated weak sales and safety concerns. Public health safety measures "have severely affected livelihoods and the ability of households to purchase food."[49] This has been exacerbated by production shocks such as the onset of African swine fever, avian influenza, fall armyworm, and adverse climate events, which significantly affected the availability and prices of pork, poultry, cereals, and other food commodities in the market. These short-term shocks have added to the list of perennial problems in the Philippine agricultural sector, which include weak growth of agricultural output, low income of producers, declining labor supply, a deteriorating resource base, lack of inputs and finance, especially for small farmers and fisherfolk, poor logistics infrastructure, a disconnect between small farmers and fisherfolk and the value chain, the high cost of nutritious food, and dependence on concentrated distribution points located in urban areas.[50]

ODA in the form of grants and loans have been provided to the Philippines in order to reduce poverty and promote gender equality. These projects need to be continuously monitored and evaluated to see whether they benefit those who need them most. Transparency and accountability should be utmost concerns in this regard. Without steady and determined government intervention, the number of poor families is expected to escalate. The gap between the poor and the rich will widen, and women, who are among the poorest, will surely bear the brunt of this humanitarian crisis.

Generally, ODA has been a boon to financing for development in the Philippines, but there have been periods of macroeconomic instability brought about by unsustainable government borrowing. From 1999 to 2004 government budget deficits were at least 3.8 percent of GDP, with a high of 5.3 percent in 2002. Deficits of 3.5 percent of GDP or higher were also registered in 2009, 2010, and 2019. These deficits pushed the country's debt-to-GDP ratio above 60 percent during 2000 to 2005 and as high as 71.4 percent in 2003. From 2003 to 2006, interest payments accounted for more than 30 percent of total national government expenditures. In contrast, capital outlay declined continuously from 15 percent of total national government expenditures in 2001 to a low of 10 percent in 2005. Over the same period, infrastructure spending gradually decreased from 10 percent to 5 percent of total expenditures. The annual rate of inflation did not go lower than 6 percent from 2004 to 2006 and reached 9.3 percent in 2008. Poverty incidence worsened from 24.9 percent in 2003 to 26.6 percent in 2006 despite annual average economic growth of 5.5 percent during that period.[51]

Public financial management reforms, including the adoption of debt sustainability management principles, ushered in steady improvements in the Philippines' fiscal and macroeconomic performance. These reforms included efforts toward fiscal consolidation through revenue-enhancing and prudent spending measures starting in the mid-2000s. Diversification of financing strategies, including the funding of major infrastructure projects through PPPs, have allowed the government to focus its resources on other priority areas such as social amelioration. To minimize foreign exchange risks, the government has also pursued a strategic mix of foreign and domestic borrowing in funding subsequent fiscal deficits. The resulting improvements in the Philippines' credit rating and overall fiscal position have given the government more leverage in deciding which type of financial instrument to use—in terms of interest rate, repayment period, and other conditionalities—to fund specific development programs or projects. Perhaps most important, modest but consistent improvements in governance have allowed for more efficient allocation and higher-quality spending of public funds. This shift has earned the Philippines the trust and respect of the international community as an invaluable partner in regional and global development efforts.

Official Development Assistance

ODA is an important source of funds for the government's development programs and projects. ODA has been one of the most stable sources of external finance in the Philippines. Over the decades the transportation sector has been donors' top priority, but investments in human development have recently gained ground. The government uses ODA heavily to rehabilitate areas hard hit by calamities and internal conflict, such as in the wake of Typhoon Haiyan in 2013 and the aftermath of the Marawi Siege in 2017. The latter transpired on May 23, 2017, when the Maute Group (MG)—a local armed group that has been clashing with government troops since 2016 and is alleged to have links with the Islamic State—ambushed a military vehicle on a mission to serve warrant to Isnilon Hapilon, leader of the Abu Sayyaf Group (ASG), another armed organization notorious for its kidnap-for-ransom activities, who was believed to be hiding in Marawi City, Lanao de Sur. The fighting quickly escalated to other barangays of Marawi as MG consolidated its forces in the city. The aggressors occupied civilian structures, including school buildings and churches, and took control of a police outpost and a hospital. There were reported killings and hostage taking of civilians. Within 24 hours, MG has taken control of the city center, including several government facilities. The siege and armed clashes, which went on for several more weeks, resulted to the displacement of 98 percent (around 350,000 individuals) of the total population of Marawi City. In response, President Rodrigo Duterte placed the whole island of Mindanao under martial law, which was initially set for 60 days but was extended several times and lifted only on 1 January 2020.[52] The military successfully drove MG out of Marawi by October 2017, but a lot of infrastructure—including houses, mosques, commercial buildings, social facilities, roads, bridges, electricity, communication, and water systems—were destroyed during the fight for its liberation. Four years after the siege, many of the former inhabitants of the city have not yet returned to their homes.[53] The government has already disbursed $448 million for the rehabilitation of Marawi City, with another $100 million planned to be spent in 2021.[54] Almost half of the disbursed amount, or $210 million, came from ODA.[55] In 2018 the ADB approved a financing package, including $400 million in loans and $8 million in grants, to assist the government in rehabilitating and rebuilding Marawi City.[56] Also, by November 2018 aid pledges from Australia, China, Germany, Japan, Thailand, and the United States, among others, had reached $670 million.[57]

The Philippines' changing income status may change the types and amounts of ODA it received. As a lower-middle-income economy, the Philippines has had access to significant concessional loans and grants from both multilateral institutions and bilateral partners. With the steady increase in GDP over the past two decades, the country was expected to move to upper-middle-income status, but the COVID-19 pandemic resulted in a sharp decline in production in 2020, delaying the country's change in status. The reclassification of the Philippines as an upper-middle-income economy, when it occurs, is expected to bring about significant reductions in grants and loans from donor countries and institutions, and the country also anticipates receiving less preferential treatment from trade partners. Donors often change funding modalities when countries no longer qualify for ODA according to OECD rules or when they perceive that the country no longer needs aid; the Philippines now falls into the latter category. Domestic politics could also influence the nature and scale of commitments of donor countries. Of critical concern, the types and modalities of resources available to civil society organizations tends to decline as concessional ODA decreases. The cessation of grants and highly concessional credits will have implications for the country's ability to sustainably finance its own development, including commitments to fulfill the Sustainable Development Goals (SDGs) and address the impacts of the pandemic.

The economic recession resulting from the virus outbreak prompted the government to revise its revenue targets downward in 2020. Nonetheless, public spending had to be fast-tracked to save the economy from further collapse and to provide relief to lower-income households. In March 2020 Congress passed the Bayanihan to Heal As One Act (Bayanihan I), which authorized the president to carry out urgent measures necessary to address the national emergency, which included the reallocation, realignment, and reprogramming of government funds in response to the pandemic. After Bayanihan I expired in June 2020, the legislative branch passed the Bayanihan to Recover As One Act (Bayanihan II) in September 2020. Bayanihan II provided for a stimulus package designed to facilitate the government's efforts to gradually reopen the economy, support businesses, and revitalize growth. To fill the huge deficit resulting from this turn of events, the Philippines was set to borrow $54.7 billion. The top donors who extended support for the country's COVID-19 response were the ADB, the Asian Infrastructure Investment Bank (AIIB), France, Japan, and the World Bank. Driven by political will and the spirit of global solidarity, ODA has once again proven to be a resilient source of financing even during crisis.

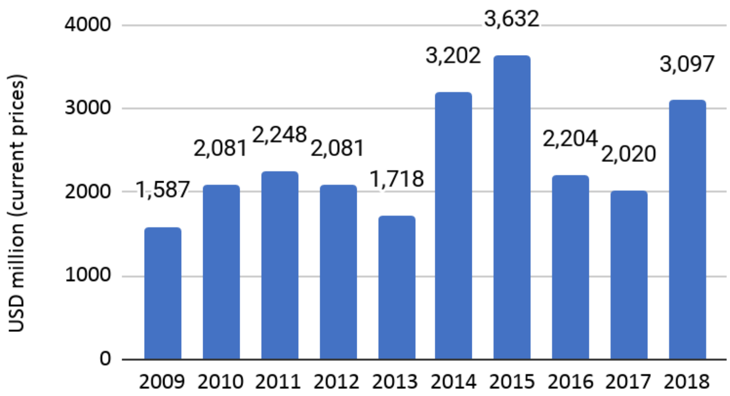
A representative from a people's organization conducts a profiling of possible beneficiaries of cash assistance to low-income families of confirmed and suspected COVID-19 patients in Quezon City. (Photo by: Vina Salazar/Oxfam)

2 FINANCING FOR DEVELOPMENT IN THE PHILIPPINES

Aid Analysis

Annual aid flows to the Philippines were generally stable over the 10-year period from 2009 to 2018, normally ranging from $1.59 billion to $2.25 billion a year. The exceptions were spikes in disbursements in 2014, 2015, and 2018, when annual aid exceeded $3 billion (Figure 1). In 2014 and 2015, loans from ADB and the World Bank surged to provide emergency assistance after the country was struck by Typhoon Haiyan. Loan disbursements from the Export-Import Bank of Korea for the communications, transport, and energy sectors were also higher than usual in the same period, exceeding $500 million annually. For 2018, aid flows were again bolstered by loans from ADB and the World Bank for various investments in disaster risk management, capital market reforms, and youth school-to-work transition programs. Financial assistance to the rehabilitation efforts in war-torn Marawi City following the end of the siege also contributed to the increase in aid received. The Japan International Cooperation Agency (JICA) was the largest donor to the reconstruction efforts. Marawi's swift recovery was important in ensuring lasting peace in Mindanao and preventing extremist groups from inciting further violence in the area.

Figure 1: Annual aid flows to the Philippines, 2009–2018



Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

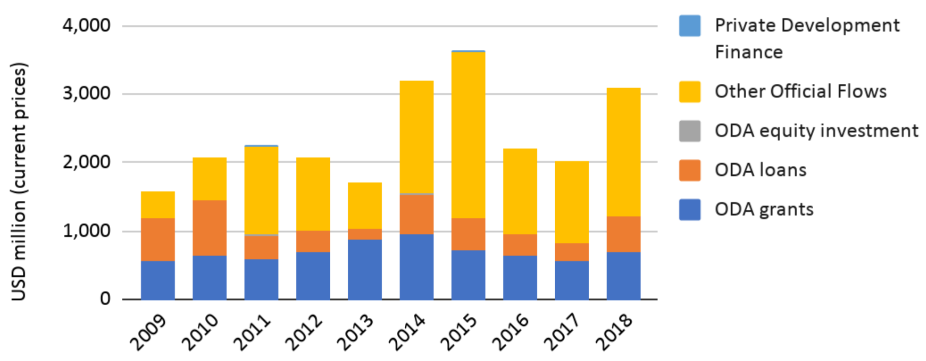
Concerns about the effects of President Duterte's threats against development partners and their aid programs appear unfounded, as total annual aid remained healthy from 2016 onward under the current administration. In December 2016 the U.S. Millennium Challenge Corporation announced it would not renew a major grant program with the Philippines. The previous five-year Philippines Compact grant was worth $506.9 million. In 2017 the Philippines formally withdrew from the second round of the U.S. Millennium Challenge Corporation grants, citing the government's decision to prioritize rehabilitation efforts in Marawi City. This withdrawal came after the Millennium Challenge Corporation's scorecard downgraded the country's score for rule of law and corruption.[58] President Duterte had also dared the European Union and United States to withdraw aid in response to criticisms of his war on drugs; aid from these donors remained. These events highlight the complexity of issues and factors affecting aid flows. Beyond governance and performance metrics, factors that can affect the amount of aid flowing into a particular country include the prevailing international aid policies and the agendas of donor institutions, the historical ties between donor and recipient, the internal affairs of donor countries, trade and natural resources considerations, geopolitics and regional conflicts, and competition among development finance institutions (such as that brought about by the emergence of AIIB).

The Philippines has received more other official flows (OOFs) than ODA in the past decade. OECD/DAC Creditor Reporting System (CRS) data covering 2009–2018 show that 52 percent of total disbursements to the Philippines consisted of OOFs, while ODA accounted for 48 percent. Private development finance figured very little, comprising less than 1 percent of total disbursements. OOFs are official sector transactions that do not meet ODA criteria. They include grants to recipient countries with representational or commercial purposes and official bilateral transactions aimed at promoting development but with a grant element of less than 25 percent. Official bilateral transactions that primarily facilitate exports, whatever their grant component, are also considered OOFs. The following are categorized as OOFs: export credits extended directly to an aid recipient, net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms, subsidies to the private sector to soften its credits to developing countries, and funds in support of private investment.

Even before the OECD DAC adopted the grant equivalent system for counting loans in 2019, the rising level of OOFs shows loans are the preferred type of financing to the Philippines. Total annual OOF levels showed an upward trend from 2009 to 2018, from a low of $387 million in 2009 to a high of $2.43 billion in 2015 (Figure 2). In contrast, ODA remained generally stable over the same period, averaging $1.14 billion a year. As a result, OOFs constituted an increasing portion of aid flows, from only one-quarter of aid in 2009 to as high as two-thirds in 2015. Aid loans represent a small percentage of government debt. At present, the Philippines is in a good fiscal position considering its manageable debt-to-GDP ratio and investment-grade credit ratings. From 2015 to 2019 the country's debt-to-GDP ratio remained below 45 percent. As of the end of first quarter of 2021, the Philippines had a BBB+ credit rating from S&P, Baa2 from Moody's, and BBB from Fitch.

Still, the Philippine government recognizes the possible existence of so-called illegitimate debts, as the General Appropriations Acts (GAA) of 2017 and 2018 included a special provision calling on government "to conduct a debt audit to determine the legitimacy of 20 government-contracted foreign loans." In December 2016, Senators Risa Hontiveros and Aquilino Pimentel III jointly filed Senate Resolution No. 253 "directing the appropriate Senate committee to inquire . . . into the foreign loans contracted by the Philippine government within the last 15 years through the conduct of a debt audit." This would cover more than 400 foreign loan agreements. To date, however, the Senate has not enacted the resolution.

Figure 2: Modalities of aid and development finance provided to the Philippines, 2009–2018



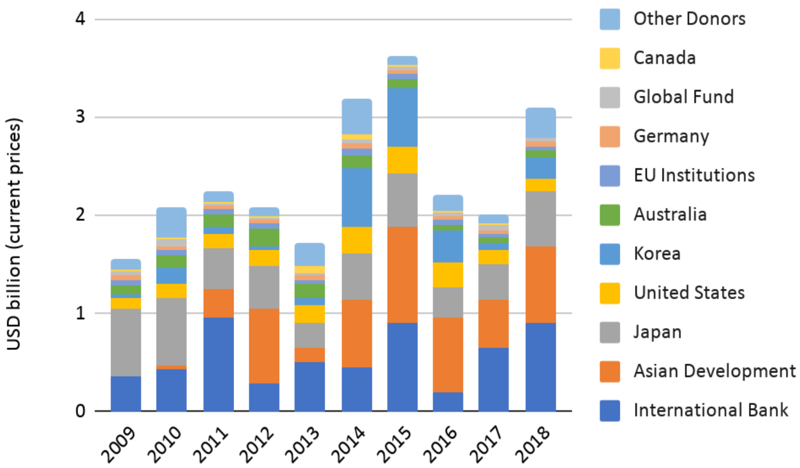
Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

The growth of OOFs was driven by loans from multilateral institutions. The World Bank accounted for almost half (46 percent) of OOF disbursements over the 10-year period while ADB accounted for almost two-fifths (39 percent).

On the other hand, ODA to the Philippines was channeled mostly through grants. Almost two-thirds (61 percent) of total ODA from 2009 to 2018 was disbursed through grants, and the remainder (39 percent) through loans. ODA equity investments made up less than 1 percent of ODA.

The top 10 donors accounted for more than 90 percent of total development finance disbursed to the Philippines from 2009 to 2018. The top three—the World Bank, ADB, and Japan—account for almost two-thirds of total financing over the period (Figure 3). The World Bank, through the International Bank for Reconstruction and Development (IBRD), heads the group, with 23.8 percent of financing and an average annual disbursement of $566 million. ADB is next, with 20.7 percent and $492 million annually, followed by Japan at 19.8 percent and $471 million annually. Other significant donors are Korea at 9.1 percent ($217 million average annually), the United States (7.8 percent and $186 million), and Australia (4.5 percent and $108 million). While the World Bank disbursed the most funds, most of these were in the form of loans. The United States leads all donors in grant funding, with all of its bilateral aid provided through grants. The remaining major donors are the European Union (2 percent), Germany (2 percent), the Global Fund (1 percent), and Canada (1 percent). Aside from these 10 donors, 51 other countries and organizations, from within and outside DAC, reported contributing aid funding to the Philippines within the period.

Figure 3: Top 10 donors to the Philippines, 2009–2018



Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

However, the issue of tied aid or tied loans persists in the Philippines. The OECD defines tied aid as a loan or grant offered "on the condition that it be used to procure goods or services from the provider of the aid."[59] The OECD DAC states that "tied aid can increase the costs of a development project by as much as 15 to 30 percent," thus preventing "recipient countries from receiving good value for money for services, goods, or works" while unfairly setting "legal and regulatory barriers to open competition for aid-funded procurement."[60] The OECD DAC has advocated for the untying of aid since 2001 and reports that some progress has been made, although some backtracking has recently taken place. Among donor countries who are OECD DAC members, several are well known for tying aid: Australia, Germany, Japan, South Korea, the United States, and the United Kingdom.

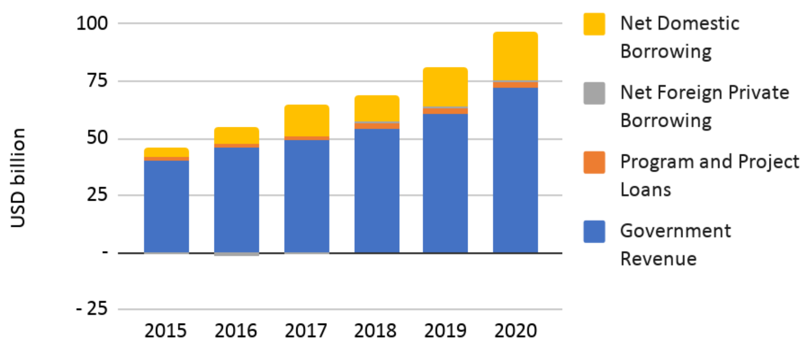
The mere untying of aid, however, will not solve the problem. The civil society–based European Network on Debt and Development (EURODAD) argues that, even if untied, "procedural restrictions" in aid contracts give companies from donor or rich countries an unfair advantage over local firms. For instance, it is common for donors to insert into the aid contract specifications for technologies and consultancy expertise that can be fulfilled only by more developed economies. In 2020 EURODAD reported a surge in tied aid, with the world's major donors reserving "almost $21 billion of their bilateral aid for suppliers from their own countries in 2018 . . . $4.7 billion more than the year before."[61] The figure represented almost 20 percent of bilateral aid. The group lamented that the increase in tied aid in 2018 "puts donors' commercial priorities before the priorities of people living in poverty."[62]

China is known for tying virtually all of its foreign aid, and because it is not an OCED member, OECD DAC recommendations on the untying of aid do not apply to it. Thus China's ascendancy as the world's second-largest economy and a major donor through its bilateral aid and its dominating presence in the AIIB poses further challenges to attempts to reform the global aid environment.

Philippine Financing Analysis

For the Philippine government, aid is only a small source of financing. The General Appropriations Act from 2015 to 2020 shows that the total budget of the national government grew from $45.2 billion in 2015 to $96.9 billion in 2020. This rise amounts to an increase in public spending of more than 20 percent a year. Taking inflation into account, government expenditure still grew by an average of 9 percent a year, based on constant 2000 prices. Aid, recorded through program loans and project loans, accounts for less than 5 percent of the government's sources of financing every year (Figure 4). As a middle-income country, the Philippines finances about 80 percent of spending each year through domestic revenues. Nontax revenues constitute a significant portion of domestic revenues and include administrative and regulatory fees and charges, returns to investment activities, and privatization proceeds.[63] Domestic revenues increased substantially from $46 billion in 2014 to $70 billion in 2018.[64] The remaining deficit is financed through domestic and foreign borrowing from the private sector.

Figure 4: Philippine government sources of financing, 2015–2020

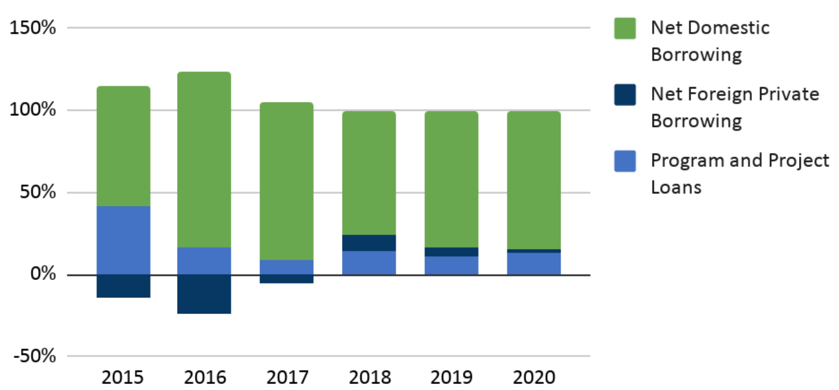


Source: Department of Budget and Management (DBM), Budget of Expenditures and Sources of Financing, various years, https://www.dbm.gov.ph/index.php/dbm-publications/budget-of-expenditures-and-sources-of-financing-besf (last accessed 1 May 2021).

For the past few years the Philippine government has set a target for its financing mix of 75:25 in favor of domestic borrowing in order to reduce the country's exposure to foreign exchange risks. Domestic borrowing, however, runs the risk of crowding out investment by reducing funds available to private investors in the capital market, potentially leading to lower output and consumption in the long run.[65] A 2015 study reported a negative and significant relationship between domestic debt and investment in the Philippines.[66] Furthermore, in light of declining progressivity in state revenue policy, domestic debt servicing may lead to upward income redistribution as low- and middle-income taxpayers bear the burden of repaying the interest on securities held by the government's rich creditors.[67] In the Philippines only the richest 30 percent of the population are net savers—that is, their incomes are higher than their expenditures on average—and therefore potentially can lend money to the government. The CREATE Law is expected to boost the savings of the rich even further. Its revenue-eroding measures, along with increasing debt servicing, may also lead to reduced public spending on agricultural development and social services, which have never been among the government's top priorities, to the detriment of the poor, who depend on these investments.

The percentage of the government's total financing sourced from program and project loans is higher when it has more leeway for foreign borrowing due to low or negative net foreign private borrowing. The 25 percent cap on foreign sources of financing applies to both aid flows and borrowing from the private market. Data for 2015 to 2020 show that the government kept net foreign borrowing at or below 25 percent of total borrowing (Figure 5). In 2015 program and project loans exceeded this cap; this occurred because government amortizations for private foreign loans exceeded new borrowing for that year, bringing net foreign private borrowing to –15 percent of total borrowing and allowing program and project loans to account for 41 percent of total borrowing. In 2016 and 2017, however, despite continued negative net foreign private borrowing, the government decided to pare down total foreign debt by accepting lower levels of program and project loans.

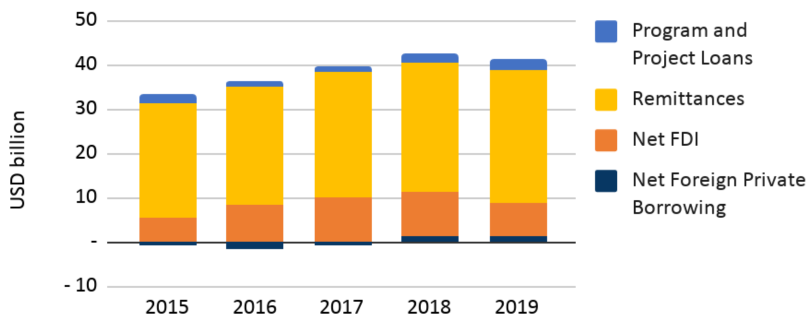
Figure 5: Financing mix of the Philippines government, 2015–2020



Source: Bureau of the Treasury, National Government Debt, https://www.treasury.gov.ph/?page_id=12407 (last accessed 1 May 2021).

Aid also pales in comparison with remittances and foreign direct investment (FDI) as a source of foreign financing for the Philippines. Remittances by far are the main source of foreign financing for the Philippines (Figure 6). The Bangko Sentral ng Pilipinas (BSP) reported that remittances grew steadily from $25.6 billion in 2015 to $30.1 billion in 2019. These totals are 12 to 23 times larger than annual program and project loans to the government over the same period. At the end of October 2020, total remittances for the year were at $27.3 billion—a contraction of about 1 percent from the same period the previous year.[68] Also more significant than aid are net annual FDI flows, which range from $5.6 billion in 2015 to $10.2 billion in 2017. While not as large as remittances, net FDI is still three to eight times larger than program and project loans annually. The Philippine Statistics Authority (PSA) reported that approved foreign investments for 2019 went largely to three industries: information and communication technology (56 percent); electricity, gas, steam, and air conditioning supply (19 percent); and manufacturing (16 percent).[69] In the third quarter of 2020, the approved projects with foreign interest were projected to generate 21,244 jobs.[70] Owing to constitutional restrictions and national security reasons, some industries are not open to foreign investment. Unlike remittances and FDI, however, aid and public borrowing from the foreign private credit market are financing that the government can directly use.

Figure 6: Foreign financing mix in the Philippines, 2015–2019



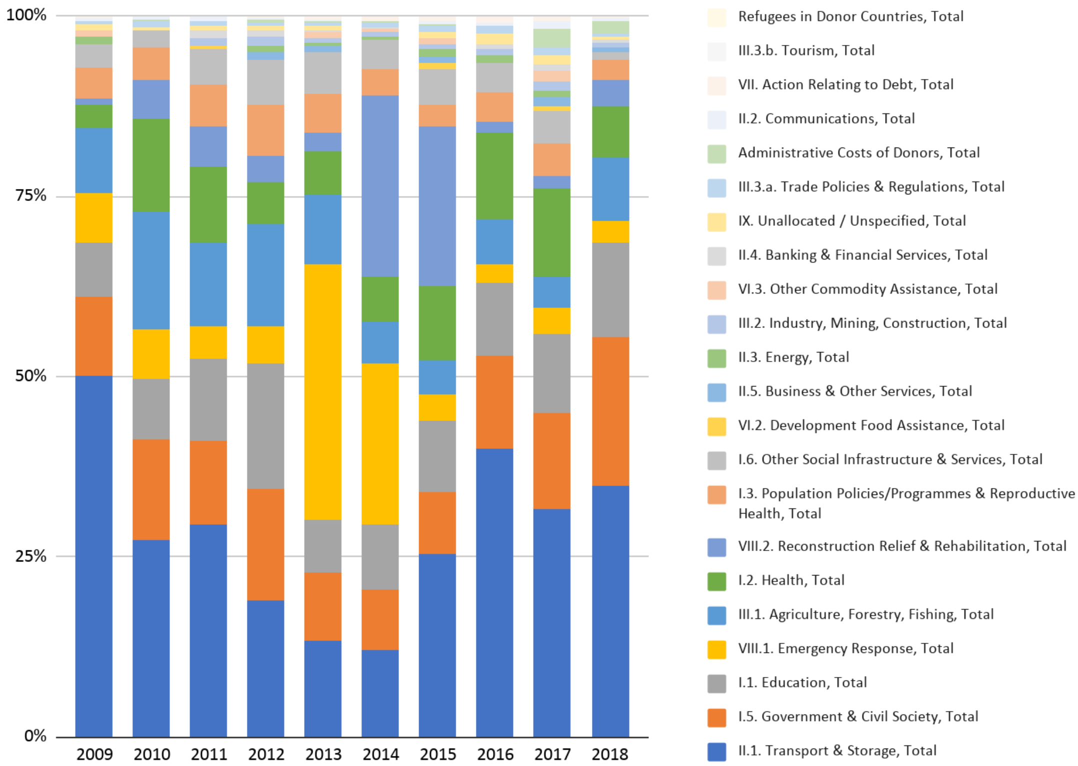
Source: Bureau of the Treasury, National Government Debt, https://www.treasury.gov.ph/?page_id=12407 (last accessed 1 May 2021).

Sectoral Analysis

Sectoral priorities of aid funding

The transport sector is consistently a clear priority for ODA funding to the Philippines (Figure 7). One-fifth of total ODA disbursements from 2009 to 2018 were allocated to transportation, with funding averaging $US166 million a year. Three-quarters of funding was from Japan. In most years, it tops the list of sectors in terms of ODA disbursements.

Figure 7: Allocation of ODA by sector, 2009–2018



Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

Disasters lead to spikes in funding for emergency response and for reconstruction, relief, and rehabilitation. With Typhoon Haiyan hitting the Philippines in 2013, emergency response was the top ODA priority that year, accounting for 17 percent of ODA ($125 million). The following year, reconstruction, relief, and rehabilitation were the focus. The sector received almost a quarter of ODA disbursements ($257 million) in 2014, while support for emergency response continued, accounting for 12 percent ($131 million) of ODA. Support for reconstruction, relief, and rehabilitation continued until 2015, when it still received significant ODA funding ($214 million), below only the transport sector. During these times of peak funding for emergency response and rehabilitation, ODA funding for the transport sector also dipped compared with other years, with its funder, Japan, reducing disbursements while other donors stepped up contributions to the relief effort.

Other sectors that received significant ODA funding over the 10-year period were multisector aid, which includes disaster risk reduction, government, education, agriculture, and health (Table 4).

Table 4: Other important sectors receiving ODA funding, 2009–2018

Sector	Annual average, 2009–2018	Average percentage of annual ODA
Multisector (disaster risk reduction)	$103.5 million ($40 million)	11.3% (4.6%)
Government and civil society	$91.5 million	10%
Education	$66.6 million	7.3%
Agriculture, forestry, and fishing	$64.3 million	7%
Health	$53.2 million	5.8%

Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

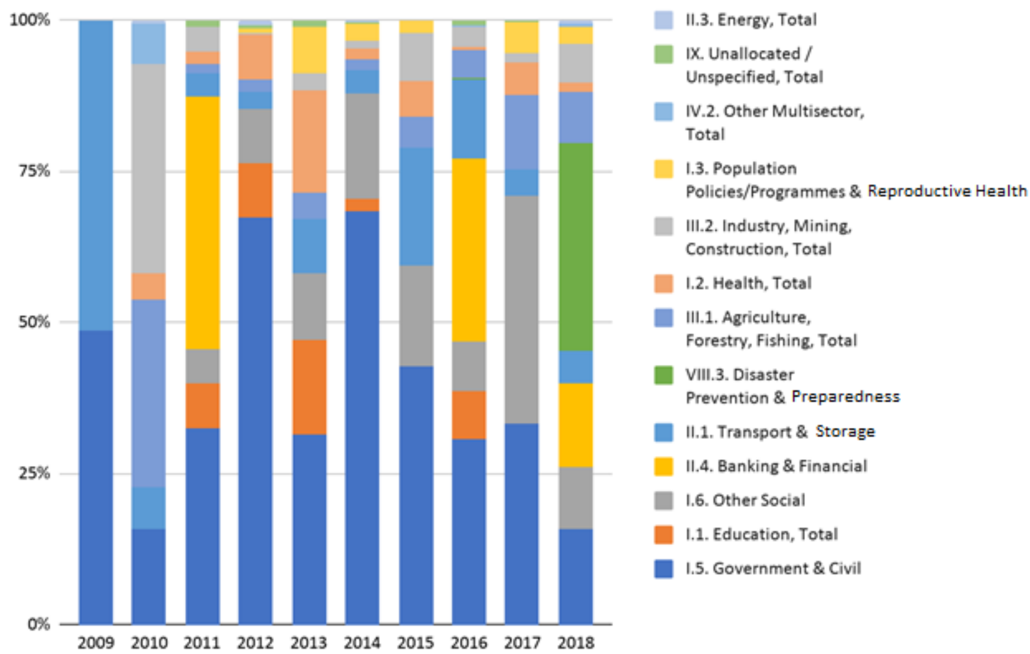
The government sector is the top priority for OOFs. Almost one-quarter of OOFs from 2009 to 2018 went to the public sector (Figure 8). Funding to this sector averaged $210 million annually. The ADB provided almost all such OOFs. Funding to this sector can support a wide variety of activities since it includes direct funding for the government to implement various programs and projects.

A fisherfolk holds mangrove seedlings to be planted in the forested situated in Lawaan, Eastern Samar. The forest was damaged by Super Typhoon Haiyan (local name: Yolanda) in November 2013. (Photo: April Bulanadi/Oxfam)

Sectoral priorities of the Philippine government

Education and transportation infrastructure are the Philippine government's highest- priority sectors. These two sectors have received the most public investment annually since 2015, and each has accounted for 15 percent of total public investment over the past six years (Figure 8). On average, more than $11 billion is invested in each of these two sectors every year. Infrastructure received particular attention from the government under its flagship Build, Build, Build program. Data show, however, that the government has better capacity in spending investments in education, with fund utilization steadily increasing from $8.2 billion in 2015 to $13.2 billion in 2019. The appropriation for education in the 2020 budget is $14.3 billion (17 percent)—the highest share of any sector for the year.

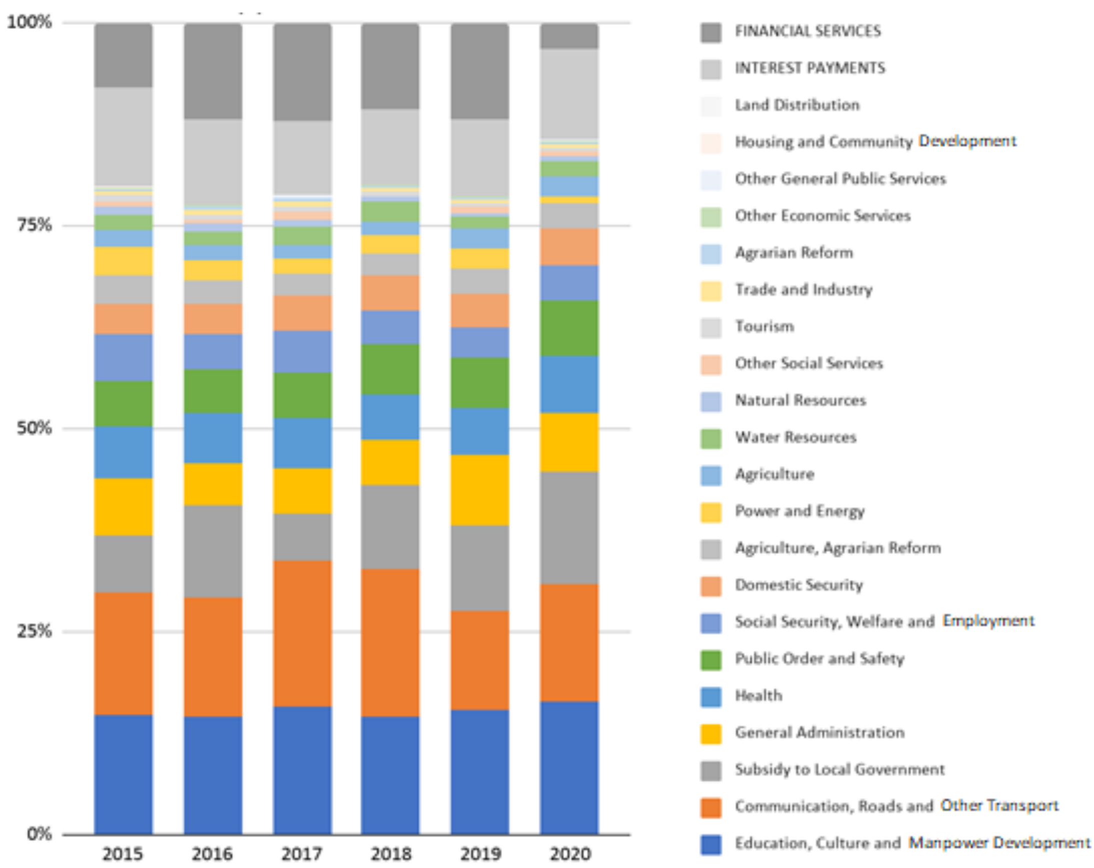
Figure 8: Allocation of OOFs by sector, 2009–2018



Source: OECD/DAC Creditor Reporting System, https://stats.oecd.org/ (last accessed 22 July 2021).

National government subsidies to local governments will continue to increase in the coming years with the implementation of the Supreme Court's Mandanas ruling. Delivered primarily through the internal revenue allotment (IRA), support for local governments rose to become the sector with the third-highest budget in 2020, with an appropriation of $12.1 billion (14 percent) (Figure 9). The Supreme Court's Mandanas ruling increased the base of national taxes used to compute the share of local governments in the national budget. When the Supreme Court made its initial ruling in 2018, it estimated that the subsidy to local governments in the then proposed 2019 budget should be increased by 50 percent, from $12.2 billion to $18 billion. In 2019 the Supreme Court upheld the ruling and clarified that the adjusted amounts of the IRA to local governments will be disbursed starting with the 2022 budget cycle. With many basic public services like health, social welfare, agricultural extension, and community infrastructure devolved to local governments, this change presents a critical opportunity for accelerating progress toward development goals.

Figure 9: Philippine government spending by sector, 2015–2020



Source: Department of Budget and Management (DBM), Budget of Expenditures and Sources of Financing, various years, https://www.dbm.gov.ph/index.php/dbm-publications/budget-of-expenditures-and-sources-of-financing-besf (last accessed 1 May 2021).

General administration, health, public order and safety, social welfare, domestic security, and agriculture and natural resources are the other sectors receiving major funding from the government (Table 5). Considering its strategic importance, agriculture does not receive a high priority in terms of budgetary allocation. This neglect of the agricultural sector is especially perplexing given the country's persistent concerns about food security, poverty, and inequality. In 2018 farmers and fisherfolk had the highest incidence of poverty among the basic sectors, at 31.6 percent and 26.2 percent, respectively.

Table 5: Other important public sectors in the Philippines' national budget, 2015–2020

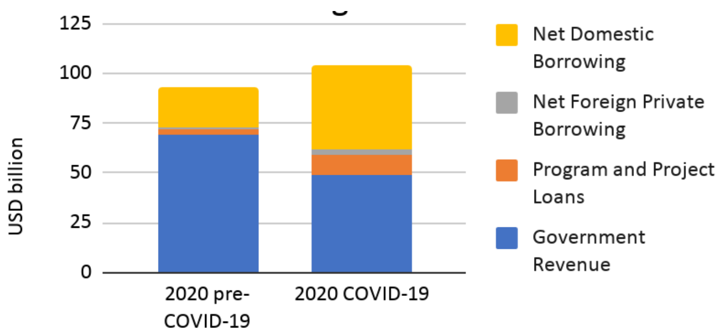
Sector	Annual average, 2015–2020	Average percentage of budget
General administration	$4.8 billion	6.6%
Health	$4.6 billion	6.2%
Public order and safety	$4.4 billion	6.0%
Social security, welfare, and employment	$3.3 billion	4.5%
Domestic security	$3.0 billion	4.2%
Agriculture, agrarian reform, and natural resources	$2.2 billion	3.0%

Source: Department of Budget and Management (DBM), Budget of Expenditures and Sources of Financing, various years, https://www.dbm.gov.ph/index.php/dbm-publications/budget-of-expenditures-and-sources-of-financing-besf (last accessed 1 May 2021).

Impact of COVID-19 on Philippine Financing for Development

The economic recession due to COVID-19 led to a dramatic 40 percent drop in expected public revenues for 2020, causing the deficit to more than double. The increase in public spending in response to COVID-19 has been minimal, with the Bayanihan to Recover As One Act (Bayanihan II) allotting only $2.8 billion in supplemental appropriations. Total disbursements for the year are now estimated at $85 billion, only 6 percent higher than expected pre-COVID-19. In contrast, as of August 2020, the government expected to raise only $49.4 billion in revenue for the year, 40 percent lower than its initial projection of $69.3 billion (Figure 10), largely because of the economic recession caused by COVID-19. As a result, the deficit has ballooned by 168 percent, from $13.3 billion to $35.6 billion.

Figure 10: Sources of Philippines' 2020 government financing, projected before and after the COVID-19 pandemic



Source: Department of Budget and Management (DBM), Budget of Expenditures and Sources of Financing, 2020, https://www.dbm.gov.ph/index.php/dbm-publications/budget-of-expenditures-and-sources-of-financing-besf (last accessed 1 May 2021).

The increased deficit has pushed the government to accelerate borrowing. To finance the expected $35.6 billion deficit in addition to outstanding debt, the government is set to borrow a total of $54.7 billion in 2021. Financing data for the first half of 2020 show that the government is on track to narrowly exceed its target of a 75:25 mix of domestic and foreign borrowing. Net domestic borrowing is expected to reach $42.3 billion (77 percent) while net foreign borrowing will total $12.4 billion (23 percent).

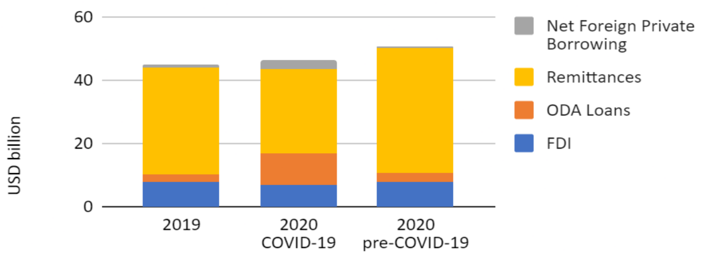
Program and project loans for 2020 have tripled from initial projections before COVID-19. Foreign financing for the government includes an expected inflow of $9.7 billion in program and project loans, compared with the $3.2 billion initially projected before COVID-19. With this new projection, ODA loans will increase by 270 percent from 2019 to reach $2.6 billion. Program and project loans will account for 78 percent of net foreign borrowing for the year while the rest ($2.7 billion) will be borrowed through foreign-denominated bonds.

As of September 2020, more than half of COVID-19 funding was from ADB. The latest data from the Department of Finance (DOF) show that more than 51 percent ($3.4 billion) of funding for COVID-19 is from ADB, followed by 19 percent ($1.3 billion) from the World Bank, 14 percent ($936 million) from Japan, 11 percent ($750 million) from the AIIB, and 4 percent ($276 million) from France.

The Philippines' total debt is set to dramatically increase until 2021 but will remain manageable. With the government aiming to borrow $55 billion in 2020 and again in 2021, total outstanding debt is set to reach its highest levels ever. However, the government will seek to keep the debt-to-GDP below a threshold of 60 percent, placing the country in a good position compared with its neighbors and other middle-income countries. The debt-to-GDP ratio was expected to increase to 53.9 percent by the end of 2020, with a debt of around $200 billion, and 58.3 percent in 2021, with a debt of around $240 billion. Debt-to-GDP last exceeded 50 percent in 2010, and the 2021 ratio will be the highest since 2006, when it reached 58.8 percent. DOF undersecretary and chief economist Gil Beltran asserted that while it is tricky to determine when the government can return to pre-COVID-19 debt-to-GDP levels, it will still be able to pay its loans, including the $1.2 billion borrowed from multilateral agencies for the country's vaccination program and other response measures. He added that unlike in the 1980s, when the Philippines went through its worst fiscal and economic crisis and still did not default on its loans, the country is now "much better off with BOP [balance of payments] in surplus and GIR [gross international reserves] amounting to over $100 billion." Nonetheless, the DOF will try to keep national government debt below 60 percent of GDP, the level at which it is sustainable.[71]

Remittances remain the primary source of foreign financing, while ODA loans will overtake foreign direct investments in value. Remittances and foreign direct investment have fallen from 2019 levels and are expected to be lower than initial pre-pandemic estimates for 2020 (Figure 11). Still, remittances will continue to be the largest source of foreign financing, at 58 percent. At the same time, the tripling of ODA loans from what was planned means it will now account for 21 percent of foreign financing, surpassing net foreign direct investments, which account for 15 percent.

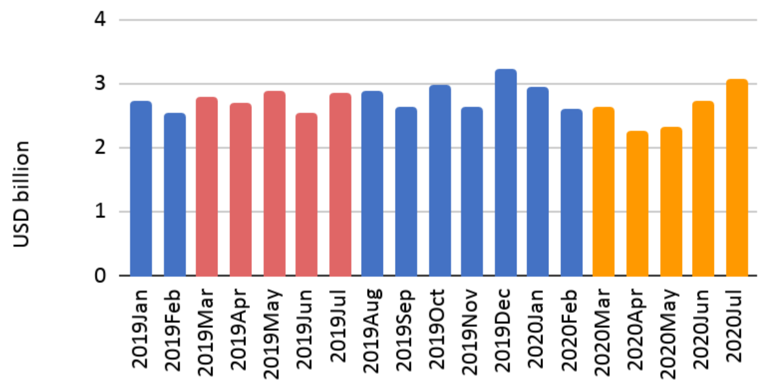
Figure 11: Mix of foreign financing to the Philippines, 2019–2020



Source: Bangko Sentral ng Pilipinas (BSP) data posted at https://www.bsp.gov.ph/SitePages/Statistics/Statistics.aspx (last accessed 22 July 2021).

Since March 2020, when the government began implementing its COVID-19 response, remittances have fallen significantly (Figure 12). The latest available remittance data from the BSP show that personal remittances from March to July 2020 ($13.1 billion) are 5.1 percent lower than during the same period in 2019 ($13.8 billion). Remittances rose again in June and July 2020 owing to an increase in reported remittances from land-based overseas workers, but remittances from sea-based workers continued to decline drastically, given that many sea-based workers lost their jobs owing to the pandemic and were repatriated. ADB estimates that remittances for 2020 would fall by more than 20 percent, to $26.7 billion.[72]

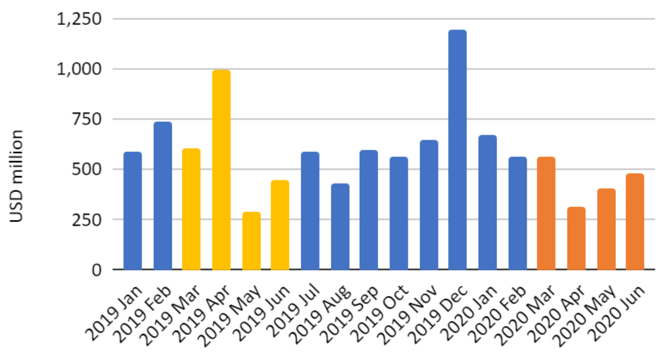
Figure 12: Monthly personal remittances to the Philippines, January 2019–July 2020



Source: Bangko Sentral ng Pilipinas (BSP) data posted at https://www.bsp.gov.ph/SitePages/Statistics/Statistics.aspx (last accessed 22 July 2021).

Similarly, from March to June 2020 net foreign direct investment fell by a third compared with the same period in 2019 (Figure 13). BSP data show net foreign direct investments for March to June 2020 dropped to $1.8 billion from $2.3 billion in 2019—a 33 percent decline. The government's Development Budget Coordinating Committee (DBCC), through its Fiscal Risks Statement released in August 2020, expects net foreign direct investment to shrink in 2020 compared with 2019.[73]

Figure 13: Monthly net foreign direct investment, January 2019–June 2020

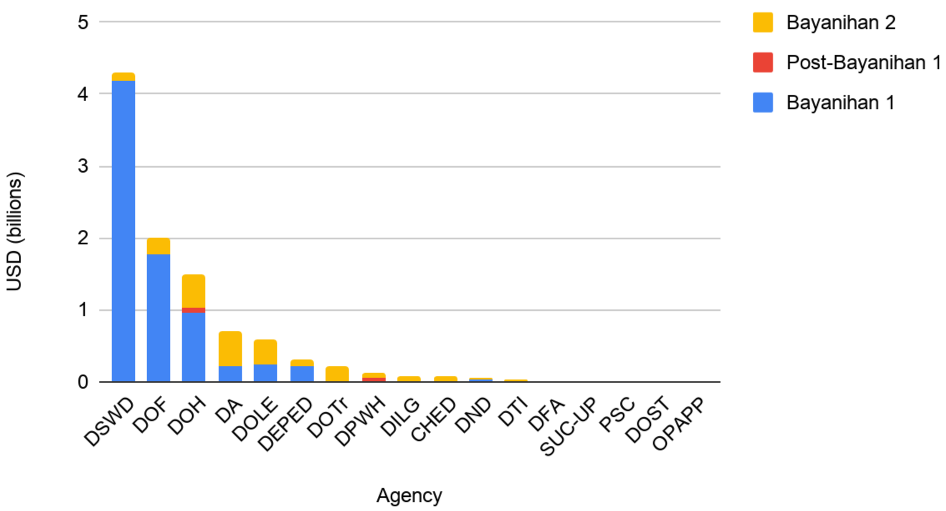


Source: Bangko Sentral ng Pilipinas (BSP) data posted at https://www.bsp.gov.ph/SitePages/Statistics/Statistics.aspx (last accessed May 2021).

Almost all new aid for COVID-19 is allotted for budgetary support. According to December 2020 data from the DOF, more than 98 percent ($12.72 billion) of new aid will provide budgetary support through program loans for COVID-19 response, giving the Philippines flexibility in selecting how it will use the funds. For the rest, two grants from ADB totaling $8 million are for COVID-19 emergency response and supplies.[74] Japan has also provided an $18 million grant for medical equipment to the Department of Health (DOH). In addition, the Philippines received a $100 million project loan for COVID-19 emergency response, while ADB is providing a $125 million loan for a health system enhancement project for COVID-19.

Congress passed two COVID-19 response measures granting budget and procurement flexibility to the Executive Department. Republic Act (RA) No. 11469, or the Bayanihan to Heal As One Act, gave the president special power to reallocate appropriations to critical government programs of various agencies. The law allowed the government to provide subsidies to low-income households, small businesses, and other key sectors, such as agriculture and overseas Filipino workers (OFWs). It also permitted the realignment of the budget to shore up resources to increase the capacity of the health system. The act expired in June 2020, and Congress passed another law to fill the gap left by Bayanihan I as the country continued to bear the effects of the pandemic. President Duterte signed RA No. 11494, or the Bayanihan to Recover As One Act, into law in September 2020. Bayanihan II extended the special powers granted to the president, provided additional funds in support of medical workers, and established measures to hasten economic recovery, raise incomes, and create jobs (Figure 14).

Figure 14: National government COVID-19 spending by department, through December 19, 2020

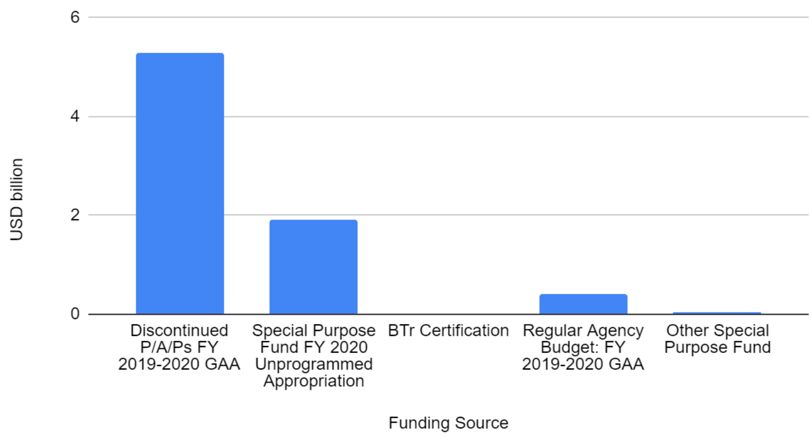


Source: Department of Budget and Management (DBM), Status of COVID-19 Releases as of December 19, 2020, https://dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#summary-of-covid-19-releases-by-agency-and-by-funding-source (last accessed 1 January 2021)

A health worker in Quinapondan, Eastern Samar, watches the health condition of over 1,400 residents in her community. (Photo: Alren Beronio/Oxfam)

Foreign assistance for COVID-19 is recorded under unprogrammed appropriations (UA), which comprised 25 percent of the funding source for Bayanihan I (Figure 15). The first Bayanihan law authorized the release of $7.6 billion. The Department of Social Welfare and Development (DSWD) received the largest allocation, with $4.18 billion, which covered the funding for the implementation of the Social Amelioration Program, a cash assistance program for low-income families. Next, the DOF received $1.76 billion for the Small Business Wage Subsidies Program and for local government programs, projects, and activities in response to the COVID-19 emergency. The DOH received the third-largest allocation, amounting to $953 million for the efficient implementation of their programs under RA No. 11469.

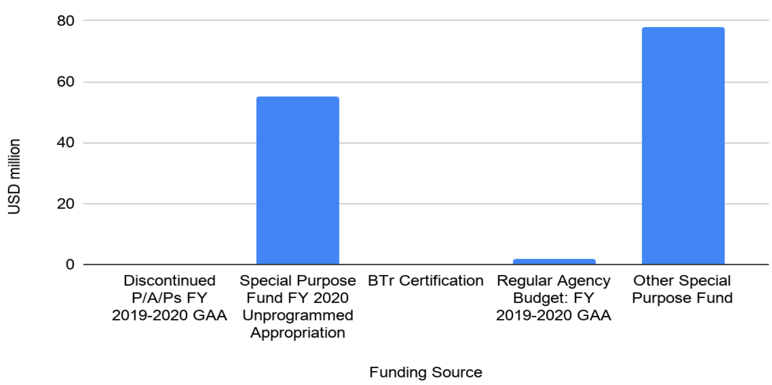
Figure 15: Funding sources of COVID-19 spending under Bayanihan I



Source: Department of Budget and Management (DBM), Status of COVID-19 Releases as of December 19, 2020, https://dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#summary-of-covid-19-releases-by-agency-and-by-funding-source (last accessed 1 January 2021).

During the months leading up to the passage of Bayanihan II, the government allocated $134 million to COVID-19 interventions, of which 41 percent was UA (Figure 16). Three agencies obtained appropriations during this period. The DOH received $70 million in loans from the World Bank for the Philippines COVID-19 Emergency Response Project (ERP). The DPWH received $55 million for the replenishment of the fiscal year 2020 Quick Response Fund. Finally, the Department of National Defense (DND) received $9 million in additional funding for the FY 2020 Quick Response Fund.

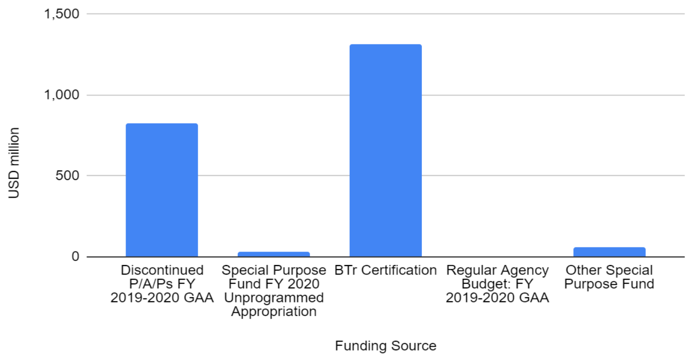
Figure 16: Funding sources of COVID-19 spending post-Bayanihan I



Source: Department of Budget and Management (DBM), Status of COVID-19 Releases as of December 19, 2020, https://dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#summary-of-covid-19-releases-by-agency-and-by-funding-source (last accessed 1 January 2021).

UA is only a small source of funding for Bayanihan II, at 1.4 percent (Figure 17). Overall, Bayanihan II allocated $2.9 billion to government interventions. As of December 2020, $2.2 billion had been released. The Department of Agriculture (DA) received the largest share, amounting to $482 million, which covered the funding of the Agriculture Stimulus Package under Bayanihan II. The DOH received the next-largest share, worth $465 million, for the funding requirements of their programs under RA 11494, which included hazard pay for health care workers. Included in the appropriation for DOH was $15 million in foreign loan assistance from the ADB for the Health System Enhancement to Address and Limit (HEAL) COVID-19 Project. The Department of Labor and Employment (DOLE) received the third-largest share, amounting to $339 million, in support of its unemployment and livelihood assistance programs.

Figure 17: Funding sources of COVID-19 spending under Bayanihan II



Source: Department of Budget and Management (DBM), Status of COVID-19 Releases as of December 19, 2020, https://dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#summary-of-covid-19-releases-by-agency-and-by-funding-source (last accessed 1 January 2021).

Regional Distribution of Development Priorities

After the executive department realigned and reallocated the budget as a result of Bayanihan I and II, the largest allocation went to the National Capital Region (NCR). The NCR allocation grew by $1.6 billion (Table 6), and a review shows that the surge in the NCR budget was due largely to an increase in funding for the Department of Education (DepEd) and the DA, even as the total government allocations to other regions aside from NCR declined. During the Bayanihan I period, the DepEd received $215 million for the implementation of the Basic Education-Learning Continuity plan, while DA obtained $168 million for its Rice Resiliency Program.

Table 6: Regional allocation of the expenditure program (USD thousand)

Region	2020 GAA	Updated 2020 GAA	Difference	% change	Share of 2020 GAA spending (%)	Share of updated 2020 GAA spending (%)
Nationwide	17,278,884	16,954,540	-324,344	-1.9	20.91	20.52
Central Office	7,581,048	7,375,521	-205,526	-2.7	9.18	8.93
National Capital Region	16,709,326	18,342,867	1,633,541	9.8	20.22	22.20
Region I	2,280,275	2,220,172	-60,103	-2.6	2.76	2.69

Region	2020 GAA	Updated 2020 GAA	Difference	% change	Share of 2020 GAA spending (%)	Share of updated 2020 GAA spending (%)
Cordillera Administrative Region	1,340,972	1,304,877	-36,095	-2.7	1.62	1.58
Region II	1,956,794	1,914,111	-42,683	-2.2	2.37	2.32
Region III	4,210,731	4,060,783	-149,948	-3.6	5.10	4.91
Region IV A	4,680,477	4,476,745	-203,732	-4.4	5.66	5.42
Region IV B	1,777,535	1,736,023	-41,512	-2.3	2.15	2.10
Region V	3,030,472	2,951,122	-79,351	-2.6	3.67	3.57
Region VI	3,198,331	3,112,389	-85,942	-2.7	3.87	3.77
Region VII	2,952,936	2,857,874	-95,062	-3.2	3.57	3.46
Region VIII	2,550,356	2,498,813	-51,544	-2.0	3.09	3.02
Region IX	1,932,577	1,889,006	-43,571	-2.3	2.34	2.29
Region X	2,535,526	2,475,596	-59,929	-2.4	3.07	3.00
Region XI	2,747,089	2,690,399	-56,690	-2.1	3.32	3.26
Region XII	1,895,158	1,840,489	-54,669	-2.9	2.29	2.23
CARAGA	1,701,691	1,657,878	-43,813	-2.6	2.06	2.01
BARMM	2,260,968	2,261,940	972	0.0	2.74	2.74
Total	82,621,146	82,621,146	0	0.0	100.00	100.00

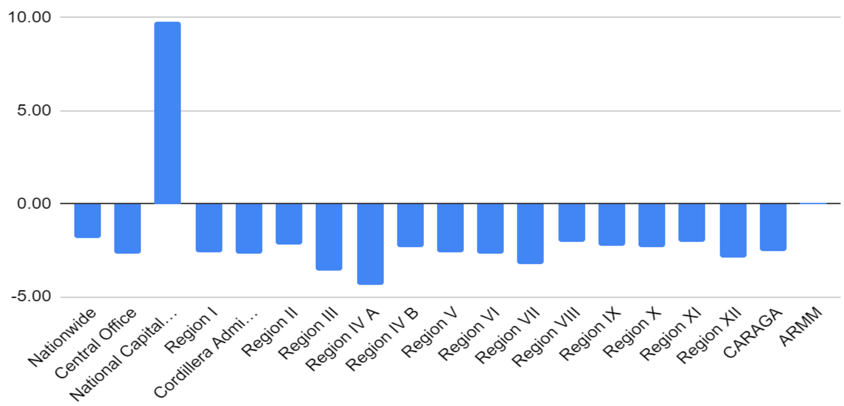
Source: Department of Budget and Management (DBM), Regional Allocation of the Expenditure Program by Department/Special Purpose Funds, CY 2020 GAA, https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2020/Selected-BESF/Table-B-6.c.pdf and Regional Allocation of the Expenditure Program By Department/Special Purpose Funds, CY 2020 GAA (Updated) https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2021/B6b.pdf (last accessed 1 May 2021).

Note: 2020 here represents the calendar year.

Other regions received smaller shares of expenditures of the 2020 COVID-19 budget than did NCR. Although the nationwide budgets for the Department of Labor and Employment (DOLE), DOH, and Department of the Interior and Local Government (DILG) increased by at least 50 percent, the budgets of DepEd, DA, and DSWD sharply declined. The nationwide budgets of DepEd, DA, and DSWD decreased by $544 million, $355 million, and $133 million, respectively. Meanwhile, nationwide appropriations for DOH, DOLE, and the Department of Information and Communications Technology (DICT) increased by $618 million, $126 million, and $85 million, respectively. Notably, the DSWD budget was reallocated from its regional offices to its central office. Also, in particular, the nationwide allocation for the DOLE increased by 11 times its initial budget for 2020. Under Bayanihan I, the DOLE received $100 million to assist displaced overseas Filipino workers returning to the country and $150 million to fund financial assistance programs for workers affected by the pandemic. Funding for the DOLE programs came from the FY 2019 GAA and FY 2020 GAA.

All regions other than the NCR and the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) posted negative growth rates in allocations from the GAA (Figure 18). The increase in the nationwide and region-specific budgets of DILG, except for its central, Region IX, and Region XII offices, was offset by the contraction of DepEd allocations in all regions besides the NCR and BARMM. The COVID-19 releases of DILG under Bayanihan included an allocation for COVID-19 prevention activities by the Philippine National Police (PNP), the Bureau of Jail Management and Penology (BJMP), and the Bureau of Fire Protection (BFP). The funding source for the activities of PNP, BJMP, and BFP is FY 2020 GAA. While the NCR allocation for DepEd increased by 167 percent, the DepEd allocation to all other regions except BARMM contracted by at least 8 percent.

Figure 18: Change in regional allocations from the 2020 GAA to the updated 2020 GAA



Source: Department of Budget and Management (DBM), Regional Allocation of the Expenditure Program by Department/Special Purpose Funds, CY 2020 GAA, https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2020/Selected-BESF/Table-B-6.c.pdf and Regional Allocation of the Expenditure Program By Department/Special Purpose Funds, CY 2020 GAA (Updated) https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2021/B6b.pdf (last accessed 1 May 2021).

A local health monitor and barangay health worker explaining the COVID-19 safety protocols to residents of Datu Abdullah Sangki, Maguindao. (Photo: Princess Taroza/Oxfam)

3 PHILIPPINE GOVERNMENT DEVELOPMENT SPENDING MOVING FORWARD

Economic Outlook 2021 Onward

The Development Budget Coordination Committee (DBCC) of the NEDA Board[75] reviews and approves the government's macroeconomic targets, revenue projections, borrowing level, aggregate budget level, and expenditure priorities. On December 3, 2020, the DBCC published medium-term macroeconomic forecasts for FY 2021 to 2022 based on an assumption that the Philippine economy would recover in 2021 (Table 7).[76] The committee approved the macroeconomic parameters in July 2020 and revised its assumptions in December to reflect economic updates. It cited developments such as the gradual full reopening of the economy and the uptrend in the employment rate following the imposition of community quarantine in April 2020. It also noted the higher-than-projected revenue collection and the probable passage of economic recovery bills pending in Congress.

Table 7: DBCC macroeconomic indicators and projections, 2020–2022

Parameter	2020 (projected)	2021 (projected)	2022 (projected)
Real GDP growth (%)	(-8.5)–(-9.5)	6.5–7.5	8–10
Inflation (%)	2.4–2.6	2.0–4.0	2.0–4.0
Dubai crude oil (USD/barrel)	40–42	35–50	35–50
Exchange rate (Philippine Pesos/USD)	48–50	48–53	48–53
364-day T-bill rate (%)	2.5–2.6	2.0–3.5	2.5–4.0
LIBOR, 6 mos. (%)	0.7–0.8	0.2–1.2	0.3–1.3
Growth in exports (%)	–16.0	5.0	5.0
Growth in imports (%)	–20.0	8.0	8.0

Source: NEDA, "Joint DBCC Statement: Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2020 to 2022," 3 December 2020, https://www.neda.gov.ph/joint-dbcc-statement-review-of-the-medium-term-macroeconomic-assumptions-and-fiscal-program-for-fy-2020-to-2022/ (last accessed 1 May 2021).

The DBCC expects GDP growth to be at 6.5–7.5 percent in 2021 and 8–10 percent in 2022. The forecasts on economic expansion reflect the quarter-to-quarter improvements in GDP numbers in the third and probably fourth quarters of 2020. The DBCC attributes the positive growth projections to the resumption of economic activities and improvements in the health care system. The government expects to attain the GDP growth targets by keeping its macroeconomic fundamentals intact, sustaining COVID-19 interventions, implementing programs and projects under the 2021 national budget without delay, and passing high-priority economic recovery bills.[77]

The inflation rate forecast ranges from 2.0 percent to 4.0 percent in 2021 and 2022. In December 2020, the country recorded its highest inflation since March 2019, at 3.5 percent. The items that caused the increase in inflation were food and non-alcoholic beverages (4.8 percent), healthcare (2.6 percent), transport (8.3 percent), and restaurants and miscellaneous goods and services (2.5 percent).[78] Inflation is expected to increase in the medium term owing to the gradual economic recovery and the normalization of domestic demand. To ensure stable and low inflation, the NEDA recommended that the government focus on interventions addressing buffer stocks of agricultural commodities, supply chains, crop insurance, animal-borne diseases, and calamities.[79]

The price of Dubai crude oil is projected at $35–$50 a barrel in 2021 and 2022 based on the forecasts of DBCC. The DBCC estimated the crude oil price per barrel in 2020 at $40 to $42. Its updated price projection reflects the decrease in demand for crude oil as economic activities declined as a result of the pandemic. It expects the gradual reopening of the economy and the resumption of business activities to increase Dubai crude prices in the medium term.

The DBCC projects the peso-dollar exchange rate to be PhP 48–53 to the U.S. dollar in 2021 and 2022. The projection shows a strong and stable Philippine peso that contrasts with the depreciating currencies of other Asian economies. Economic managers pointed to the easing of inflationary pressures and policy interventions to curtail the impact of COVID-19 as reasons for the peso's resilience.[80]

Macroeconomic forecasts put the 364-day Treasury bill rate at 2.0–3.5 percent in 2021 and 2.5–4.0 percent for 2022. In 2020 the 364-day Treasury bill rate was at 2.5–2.6 percent. The forecasts reflect BSP measures that include easing of monetary policy and lowering of interest rates. The BSP intends to help the economy recover by infusing liquidity into the financial system and increasing economic activity.[81]

The London Interbank Offer Rate (LIBOR) is projected by the DBCC to be 0.2–1.2 percent in 2021 and 0.3–1.3 percent in 2022. The Philippines uses LIBOR as benchmark rate for foreign borrowing. The six-month LIBOR assumption has seen a decline this year owing to measures aimed at increasing economic activity, such as by the U.S. Federal Reserve.[82] In November 2020 the BSP released a memorandum encouraging banks to have a transition plan away from LIBOR.[83] This was after the United Kingdom's Financial Conduct Authority announced the cessation of LIBOR on December 31, 2021.

For 2021 and 2022, exports are projected to grow by 5.0 percent, while imports are projected to grow by 8.0 percent. The DBCC expects trade to accelerate in the medium term as more economies open up and recover from the impact of the pandemic. The trade performance of the country in November 2020 shows that exports increased by 3 percent and imports decreased by 18.9 percent from November 2019. The uptrend in exports was led by cathodes and sections of cathodes of refined copper (83.2 percent), gold (59.5 percent), and coconut oil (40.0 percent). The fall in imports reflected decline in all commodity groups, especially transport equipment (–42.7 percent), industrial machinery and equipment (–32.6 percent), and mineral fuels, lubricants, and related materials (–30.2%).[84] For 2020, the DBCC expected the export and import of goods to contract by 16 percent and 20 percent, respectively.

Projected Sources of Financing

Total national government revenues are projected to be at 13.2 percent of GDP in 2021, which is lower than the 2019 and 2020 revenue-to-GDP ratios of 13.4 percent and 16.1 percent, respectively. Tax revenues are projected to constitute 93.5 percent of national government revenues in 2021, higher than the previous year (Table 8). In 2020 the tax collection effort deteriorated owing to the impact of the pandemic. Tax relief measures, such as extensions for filing and paying taxes, were provided to sectors affected by the crisis. Unemployment and underemployment increased when quarantine restrictions closed down many businesses and other economic activities. Collections by the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) are expected to pick up in 2021 and 2022, increasing projected revenues for 2021. However, forecasted revenue-to-GDP ratios are still lower than 2019 levels as the country continues to recover from the pandemic. Nontax revenues are expected to decline from 1.67 percent of GDP in 2020 to 0.85 percent in 2021.

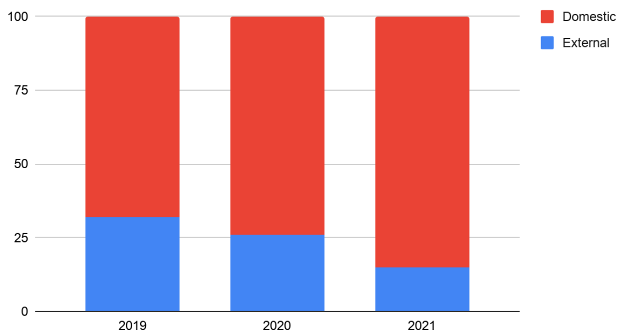
Table 8: Sources of central government revenues, 2019–2022

Source	% of GDP				% of total revenues				Growth rate (%)		
	2019	2020	2021	2022	2019	2020	2021	2022	2020	2021	2022
Grand total	16.08	13.36	13.16	13.30	100.00	100.00	100.00	100.00	-19.69	7.84	11.68
Tax revenues	14.49	11.69	12.31	12.54	90.13	87.51	93.53	94.25	-22.02	15.25	12.54
Bureau of Internal Revenue	11.15	8.94	9.22	9.55	69.34	66.90	70.07	71.76	-22.51	12.96	14.37
Bureau of Customs	3.23	2.68	3.00	2.91	20.09	20.09	22.80	21.85	-19.69	22.38	7.04
Nontax revenues	1.58	1.67	0.85	0.76	9.84	12.47	6.45	5.73	1.72	-44.16	-0.86
Fees and charges	1.77	1.51	1.48	1.44	1.77	1.51	1.48	1.44	-0.31	0.06	0.08
Income from Treasury operations	1.74	2.06	0.79	0.52	1.74	2.06	0.79	0.52	-0.05	-0.59	-0.27
National government income collected by the Bureau of the Treasury	2.93	6.40	1.96	1.76	2.93	6.40	1.96	1.76	0.76	-0.67	0.00
Other nontax revenues	3.40	2.49	2.22	2.01	3.40	2.49	2.22	2.01	-0.41	-0.04	0.01
Foreign grants	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00	-1.00	0.00	0.00
Privatization	0.00	0.00	0.00	0.00	0.03	0.02	0.02	0.02	-44.44	0.00	0.00

Source: DBM, "Revenue Program, by Source, 2019–2022," https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2021/C1.pdf (last accessed 1 May 2021).

The government financing mix is 85:15 in 2021, in favor of domestic borrowing (Figure 19). The composition of national government borrowing is in line with its objectives to minimize foreign exchange exposure and support the domestic debt market.[85] Gross borrowing is expected to amount to $58.4 billion in 2021, which includes $49.9 billion borrowed from local sources and $8.5 billion raised from foreign lenders. This borrowing will allow the government to finance the deficit, which increased from 3.4 percent of GDP in 2019 (pre-COVID-19 year) to 9.6 and 8.5 percent of GDP in 2020 and 2021, respectively.

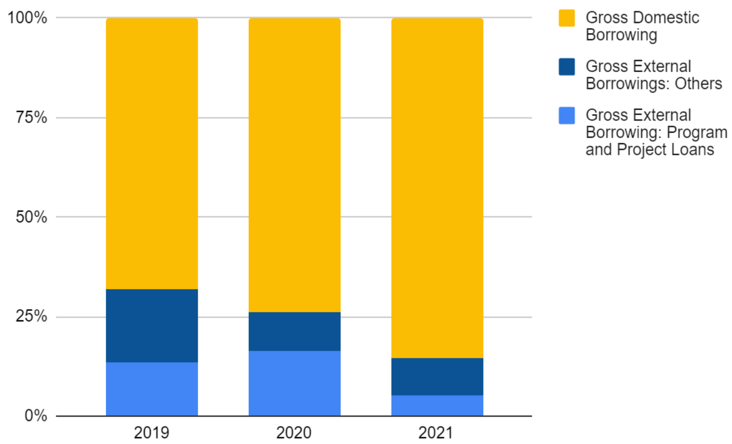
Figure 19: Philippine government financing mix, 2019–2021



Source: DBM, "Technical Notes on the 2021 Proposed National Budget" (Manila: DBM, 2020).

Aid, computed as program loans and project loans, will constitute 5.2 percent of government financing (Figure 20). Program and project loans are projected to be at $3 billion in 2021, which is lower than its financing level during the previous year. In 2020 they amounted to $9.6 billion, accounting for 16.5 percent of government borrowing. The DPWH and the DOTr will be the major recipients of foreign loans in 2021, consistent with the infrastructure spending strategy of the government.[86]

Figure 20: Composition of national government borrowing, 2019–2021



Source: Department of Budget and Management (DBM), "Technical Notes on the 2021 Proposed National Budget" (Manila: DBM, 2020).

2021 Philippine Budget Priority Sectors

The national budget for 2021 was set at $90.8 billion, 9.9 percent higher than the previous year's budget (Table 9). Of the total appropriations, 36.9 percent was allocated to social services while 29.9 percent was set aside for economic services. The $33.5 billion allocation to the social services sector and $27.1 billion budget for economic services are indications of the high priority placed by the government on reversing the health and economic impacts of the pandemic.[87]

Table 9: National appropriations by sector, FY 2020 and FY 2021

Sector	Level*		Difference*	Growth rate (%)	% of total appropriations	
	FY 2020	*FY 2021*			*FY 2020*	*FY 2021*
Economic services	24,182	27,148	2,967	12.3	29.27	29.9
Agriculture and agrarian reform	2,969	2,872	-97	-3.3	3.59	3.16
Natural resources and environment	561	548	-13	-2.4	0.68	0.6
Trade and industry	253	213	-40	-15.7	0.31	0.23
Tourism	124	128	4	2.9	0.15	0.14
Power and energy	145	285	139	96.0	0.18	0.31
Water resources development and flood control	1,537	1,764	227	14.8	1.86	1.94
Communications, roads, and other transport	12,727	15,082	2,355	18.5	15.40	16.61
Other economic services	825	820	-5	-0.6	1.00	0.90
Subsidy to local government units	5,040	5,436	397	7.9	6.10	5.99
Social services	30,126	33,527	3,401	11.3	36.46	36.92
Education, culture, and manpower development	14,691	15,726	1,034	7.0	17.78	17.32
Health	3,738	4,280	542	14.5	4.52	4.71
Social security, welfare, and employment	6,137	7,632	1,495	24.4	7.43	8.41
Housing and community development	169	81	-88	-52.1	0.21	0.09

Sector	Level*		Difference*	Growth rate (%)	% of total appropriations	
	FY 2020	*FY 2021*			*FY 2020*	*FY 2021*
Land distribution	2	2	0	0.0	0.00	0.00
Other social services	61	59	-2	-3.4	0.07	0.06
Subsidy to local government units	5,328	5,747	419	7.9	6.45	6.33
Defense	3,977	4,244	266	6.7	4.81	4.67
Domestic security	3,977	4,244	266	6.7	4.81	4.67
General public services	15,047	14,594	-453	-3.0	18.21	16.07
General administration	3,964	3,167	-797	-20.1	4.80	3.49
Public order and safety	6,226	6,285	59	0.9	7.54	6.92
Other general public services	825	792	-32	-3.9	1.00	0.87
Subsidy to local government units	4,032	4,349	317	7.9	4.88	4.79
Net lending	202	578	377	187.0	0.24	0.64
Debt-service interest payments	9,088	10,711	1,624	17.9	11.00	11.80
Grand total	82,621	90,803	8,182	9.9	100.00	100.00

Source: DBM, "Expenditure Program by Sector, FYs 2019–2021," www.dbm.gov.ph (last accessed 1 May 2021).
** -- Millions of US dollars.*

Of the budget for social services and economic services, the government earmarked $4.28 billion for the health sector, $22.3 billion for infrastructure, $2.37 billion for agriculture and food security, and $46.3 million for small and medium enterprises.[88] The infrastructure program comprised 25 percent of the total budget for 2021. In contrast, health made up 4.7 percent and agriculture was given 2.6 percent of total appropriations.

Financing from ADB and the World Bank are accounted for in the budget for the health sector.[89] The ADB extended an $85 million loan to the Philippines for the Health Systems Enhancement to Address and Limit COVID-19. The World Bank provided $22 million in loans for the COVID-19 Emergency Response Project. Together, ADB and the World Bank financed $28 billion for medical infrastructure projects.

DILG (third) ranked higher than DOH (fourth), and DSWD (sixth) ranked below DND (fifth) in terms of 2021 budget appropriations (Table 10). Both the DOH and DSWD were expected to rank higher than DILG and DND, since the budget was supposed to focus on containing the spread and mitigating the effects of the COVID-19 pandemic, funding the government's vaccination program, restarting the economy to create jobs and attract investments, and transitioning to the post-crisis recovery environment.[90] Interestingly, DSWD's budget contracted by more than 50 percent for 2021, and the allocation for DA decreased despite the government's declaration that it would prioritize agriculture and food security. Education agencies and DPWH received the highest appropriations in 2020 and 2021.

Table 10: National appropriations by department, 2020 and 2021

Top 10 departments (in USD million)	Level		Rank		Difference	% change
	2020 GAA (adjusted)	2021 GAA	2020 GAA (adjusted)	2021 GAA		
Education (DepEd, SUCs, CHED, and TESDA)	13,286	15,148	1	1	1,862	14.0
DPWH	8,689	14,019	2	2	5,330	61.3
DILG	4,756	5,024	4	3	268	5.6
DOH	3,696	4,236	5	4	540	14.6
DND	3,621	4,147	6	5	526	14.5
DSWD	7,388	3,565	3	6	-3,823	-51.7
DoTr	1,696	1,771	7	7	75	4.4
DA	1,527	1,431	8	8	-96	-6.3
The judiciary	830	913	9	9	83	10.0
DOLE	738	748	10	10	10	1.4

Source: Department of Budget and Management (2021) 2021 National Budget: Reset, Rebound, and Recover: Investing for Resiliency and Sustainability, https://dbm.gov.ph/images/pdffiles/201229-2021-Budget-at-a-Glance.pdf (last accessed 1 May 2021).

Note: SUCs = State Universities and Colleges; CHED = Commission on Higher Education; TESDA = Technical Education and Skills Development Authority.

4 PROFILES OF TOP DONORS

Asian Development Bank

Share of Philippines aid (2015–2018)	28 percent ($754 million annual average)
Aid projection	**Increasing**
Top five sectors (2015–2018)	• Banking and financial services • Government and civil society • Social infrastructure and services • Transportation • Education

The foremost development finance institution in the Asia-Pacific region, ADB addresses regional development challenges through financing in the form of grants, loans, and advisory services. ADB's operational focus encompasses tackling social and gender inequalities, developing sustainable and high-quality infrastructure, mitigating and adapting to climate change, improving the institutional capacity of governments, and advancing regional integration. These challenges are outlined in the Bank's long-term strategic framework, Strategy 2030, which lays out the areas of focus for the next decade and addresses the needs of its member countries.

ADB's budget consists of ordinary capital resources (OCRs), funds, and co-financing. Most of ADB's lending comes from its OCRs, offered at near-market terms to lower- and middle-income countries. ADB also administers more than 50 funds and financing facilities, including loans and grants from Special Funds and Trust Funds, which enable a partner to channel grants for a restricted group of countries, focus areas, or programs. Special Funds are used to "guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations."[91]

The Asian Development Fund (ADF), the largest Special Fund, offers grants that help reduce poverty in ADB's poorest borrowing countries. In 2017 ADB merged concessional lending from the ADF with the OCR balance sheet.[92] Other Special Funds include the Japan Special Fund, which supports ADB's technical assistance program with untied grants to help ADB developing member countries restructure their economies, broaden opportunities for new investment, and prepare loan projects. The Asia Pacific Disaster Response Fund (APDRF) offers quick disbursement of grants to government agencies and nongovernmental organizations (NGOs) during natural disasters and provides emergency financing at a maximum of $3 million. The Philippines accessed the APDRF in 2009 and 2013 for emergency responses to Typhoons Ketsana and Haiyan, and most recently in March 2020 to address the COVID-19 pandemic.

ADB is the largest donor to COVID-19 in the Asia-Pacific region. The Bank stepped up support to mitigate the effects of COVID-19, focusing on economic packages to cushion the potential for severe recession in the Asia-Pacific region. ADB also approved measures to streamline its operations for quicker and more flexible delivery of assistance to help ADB's developing member countries counter the economic and health impacts caused by COVID-19. In mid-April, ADB expanded its initial $6.5 billion COVID-19 response package by making available additional regular OCRs to finance countercyclical expenditures and to allocate additional grant and technical assistance resources, increasing the total size of ADB's response package to $20 billion in new funding.[93]

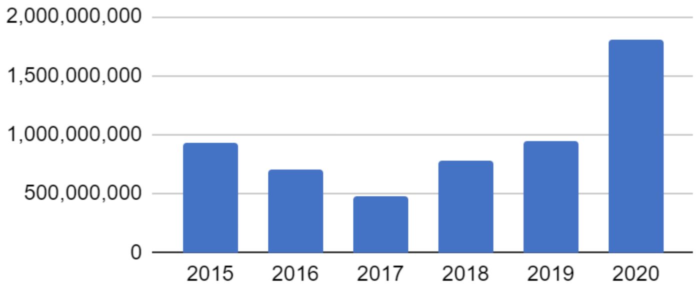
Philippine-specific Aid Policy

ADB's country partnership strategy aligns closely with Philippine government priorities. In both the *Philippine Development Plan 2017–2022* and *AmBisyon Natin 2040: A Long-Term Vision for the Philippines*, the government emphasized bolstering infrastructure, tackling poverty and income inequality, and reducing regional growth disparities.[94] Similarly, ADB's Country Partnership Strategy 2018–2023 focuses on three priority areas: accelerating infrastructure and long-term investments, promoting local economic development in Mindanao and Visayas, and making social investments in the bottom 40 percent of the population. ADB emphasized that assistance to the Philippines will focus on larger investments in fewer sectors to hew closely to the Duterte administration's strategic priorities. To achieve these goals, the Bank underscores collaboration with the Philippine government to build the technical capacity of national and local agencies, improve coordination, and strengthen PPPs.[95]

Aid Analysis

The Bank is a top aid donor to the Philippines. As host country, the Philippines enjoys a strong partnership with ADB, and the Bank is the largest source of Philippine ODA, comprising 28 percent from 2015 to 2018. ADB's annual lending to the Philippines reached a record high of $1.8 billion in 2020, primarily owing to the Bank's support for the government's infrastructure financing as well as its efforts to expand financial inclusion and raise agriculture productivity and competitiveness.[96] ADB currently has 27 active projects in the Philippines, the bulk of which are in the form of loans.

Figure 21: Annual ADB aid disbursements, 2015–2020

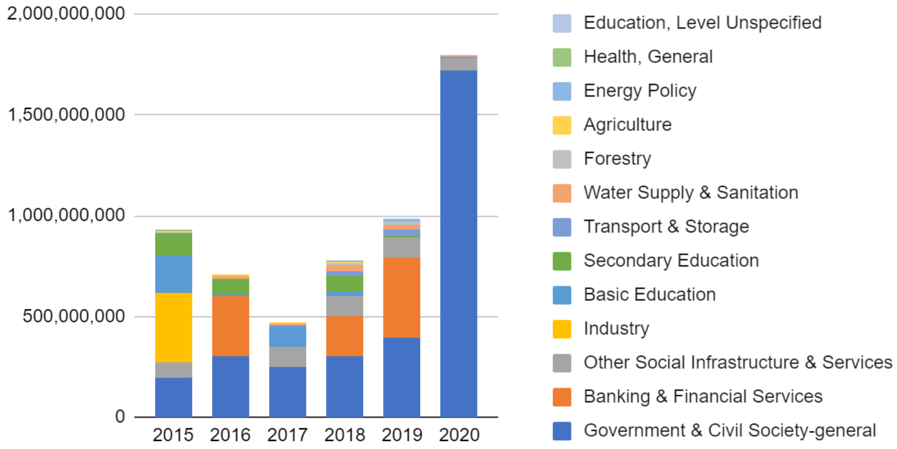


Source: Asian Development Bank (ADB), "Philippines and ADB," https://www.adb.org/countries/philippines/overview (last accessed 21 July 2021).

Regional development and social inclusion are main focus areas. As a pillar of its engagement strategy, ADB has increasingly invested in development in Visayas and Mindanao, reflected in projects such as a proposed $238 million loan for the Davao Public Transport Modernization Project. Beyond infrastructure, ADB also supports policies and programs that strengthen social inclusion and economic livelihood opportunities. Together with the World Bank, ADB supports the government's Pantawid Pamilyang Pilipino conditional cash transfer program (4Ps), recently approving $500 million in loans and $1.3 million in technical assistance to continue to increase access to education and household social protection.

Transportation is the largest budgeted sector for 2020, with more than half of the year's budget going to large transport infrastructure projects such as the over $4 billion Malolos-Clark Railway Project—ADB's single biggest project financing in Asia. In terms of disbursements, however, funding for public sector management dwarfs other sectors, with 96 percent of disbursed funding (Figure 22). This is due both to the nature of low yearly disbursements for transportation projects due to delays and to the release of emergency funding in response to crises such as the Marawi reconstruction and recovery and the COVID-19 pandemic.

Figure 22: ADB funding sectors, 2015–2020



Source: ADB, "Philippines and ADB," https://www.adb.org/countries/philippines/overview (last accessed 21 July 2021).

Social protection spending swelled in 2020 following the global response to the COVID-19 pandemic. ADB's COVID-19 Pandemic Response Option (CPRO), under the Countercyclical Support Facility, is a quick-disbursing budget-support facility to help countries mitigate the economic shocks caused by the pandemic and bankroll measures to curtail the spread of the virus. Alongside other hard-hit countries such as India and Indonesia, the Philippines took out a loan of $1.5 billion from CPRO to fund COVID-19 Active Response and Expenditure Support (CARES) programs supporting government stimulus packages to expand social assistance programs, boost resources for COVID-19 prevention and control, and safeguard workers from the economic downturn.

Projects financed through loans account for the majority of ADB's portfolio. Under its Country Partnership Strategy 2018–2023, ADB expects to lend an estimated $7.8 billion, or nearly $2 billion annually, from 2018 to 2021, the highest for any four-year period. Although most lending is channeled toward the public sector, ADB also provides direct assistance to private enterprises operating in developing countries through equity investments, guarantees, and loans.

ADB's development assistance to the country has steadily increased, reaching record highs in 2020. ADB rebalanced much of its lending pipeline to support the Philippine government's massive BBB infrastructure development program, with transport making up 47 percent of ADB's planned Philippine operations from 2018 to 2021. ADB and the Japan International Cooperation Agency (JICA) have partnered to support the government's flagship projects under the BBB program, particularly the 163-kilometer North-South Commuter Railway Project, aimed at easing chronic road congestion in Manila. Other big-ticket items include the Metro Manila Bridges project and the proposed EDSA Greenways project, a $130 million loan for elevated walkways in four high-density traffic locations along the EDSA highway in Metro Manila.

Development Finance Expectations

With infrastructure projects on the rise, funding flows from ADB to the Philippines are likely to increase. Given the wide array of infrastructure projects under the BBB program, ADB loans and technical assistance are needed to enhance government agencies' capacity to roll out such large and complex plans. ADB has a robust pipeline of proposed projects, with $2.07 billion currently up for approval for infrastructure support, social services, agriculture, public sector management, tourism development, and sustainable water and urban development. The Bank is preparing a $400 million loan for the Integrated Flood Risk Management Sector Project to improve flood protection systems and infrastructure in six river basins across the Philippines. Loans from ADB could swell to a record $5.1 billion in 2021, including a tentative $1 billion provision for the proposed Bataan-Cavite bridge project.

ADB's large role in the Philippines' response to the COVID-19 pandemic indicates increased investments in the future. According to a July 2020 announcement, ADB's concessional loans to the Philippines are expected to reach a record-high $4.21 billion in 2020, with the bulk of financing going toward supporting the government response to the health and economic crises brought about by the COVID-19 pandemic.[97] For instance, in August 2020 the Bank approved a $125 million loan for the Health Systems Enhancement to Address and Limit COVID-19 Project (HEAL), to be implemented from September 2020 to July 2023.

World Bank

Share of Philippines aid (2015–2018)	24 percent ($667 million annual average)
Aid projection	**Increasing**
Top 5 sectors (2015–2018)	• Social infrastructure and services • Government and civil society • Disaster prevention and preparedness • Fisheries • Basic education

The World Bank is one of the largest sources of financial and technical assistance to developing countries around the world. It is focused on ending extreme poverty and building shared prosperity. The Bank's 2013 strategy highlighted expediting economic growth in low- and middle-income countries to reduce poverty and create high-quality jobs. Sustainability and inclusion are running themes across the Bank's discourse and commitments, with gender equality identified as an essential component in sustaining strong growth. Interconnected development issues with global effects take center stage in the Bank's agenda. Building the resilience of vulnerable communities against climate change is among the Bank's top priorities. The Bank has also intensified its support for fragile and conflict-affected states.

The World Bank typically refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The International Finance Corporation (IFC), the private sector lending affiliate of the World Bank, and the Multilateral Investment Guarantee Agency (MIGA) are part of the larger World Bank Group. As a lower-middle-income country, the Philippines does not qualify for more concessional IDA financing and instead receives all World Bank funding from the IBRD.

When it comes to the World Bank Group's work to promote the role of the private sector in sustainable development, it seeks to enable investment-friendly environments, extends financing to small and medium-sized businesses, supports trade finance, and promotes public-private partnerships.

Philippine-specific Strategy

Anchored on the Philippine Development Plan, the World Bank's Country Partnership Framework (CPF) aims to help the Philippines achieve inclusive growth. On December 17, 2019, the World Bank Group's Board of Executive Directors endorsed a new CPF for the Philippines for 2019 to 2023.[98] The Bank has shifted its finance in the past decade from traditionally hard infrastructure projects to investments in human development and the resilience of vulnerable populations. The CPF prioritizes the creation of quality jobs and workforce competitiveness, peacebuilding, the expansion of social safety nets, and improvements in disaster risk management and climate resilience. Currently, the Bank has 27 active projects in the Philippines. In mid-2020 the Bank's total assistance amounted to $1.8 billion, mostly consisting of loans.

Financing Analysis

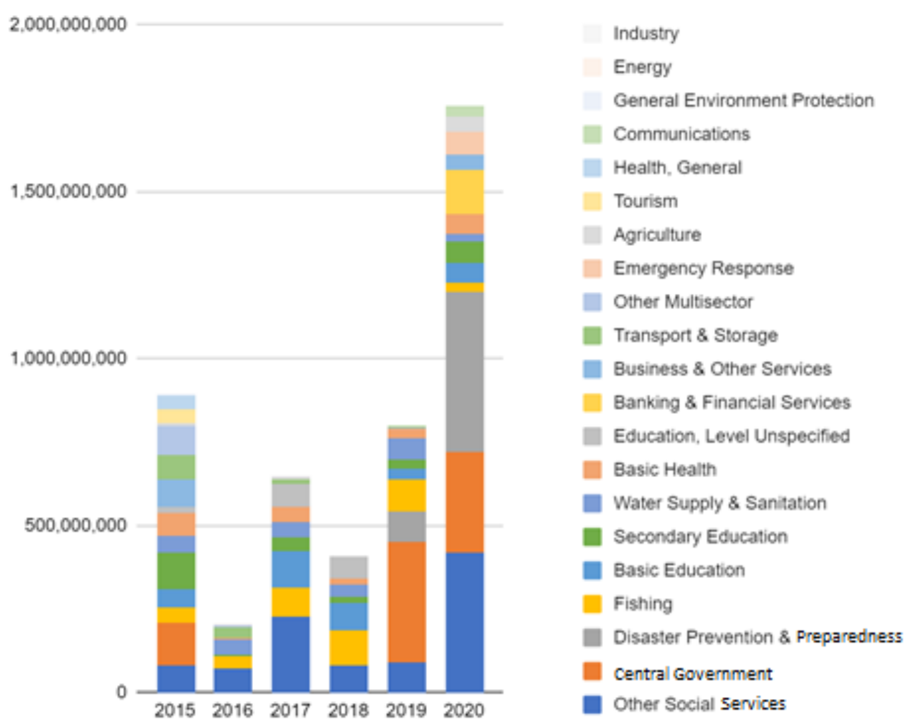
Disaster prevention and preparedness receive the bulk of World Bank financing in the Philippines, accounting for 27 percent or $479 million of the Bank's total spending in 2020 (Figure 23). Bank support is focused on strengthening the government's capacity to prepare for and respond to natural disasters as well as health and economic shocks like COVID-19. One of the Bank's single biggest investments is the $500 million provided in support of a risk insurance program to protect government agencies against financial losses from severe events. Another major investment aims to help fund the creation of the proposed new Department of Disaster Resilience.

The World Bank is the lead development partner of the Philippines for its social protection programs, accounting for 24 percent of total disbursement in 2020. It is the biggest contributor to the Pantawid Pamilyang Pilipino Program (4Ps); it scaled support up to $450 million to help finance education grants for 4Ps beneficiaries from 2016 to 2019, covering about 7 percent of the total cost of the program's implementation. In the past, the Bank also provided significant funding for the Kapit Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS), the long-running community-driven development program of the Philippines.

Mindanao is a high-priority region. Recognizing that armed conflict and poverty are inextricably linked, the Bank established a dedicated multidonor grant facility to the region—the Mindanao Trust Fund. It supports interventions that address drivers of conflict, including access to livelihood and basic services, and build cohesion among the different religious and indigenous communities. The Bank also provides technical support for Bangsamoro Autonomous Region on Muslim Mindanao, including the reconstruction and recovery of Marawi City. Women are particularly targeted as development partners in the Bank's programming in Mindanao.

A military outpost in Datu Saudi Ampatuan, Maguindanao, one of the conflict-affected areas in the country. (Photo: Princess Taroza/Oxfam)

Figure 23: World Bank funding sectors in the Philippines, 2015–2020



Source: World Bank, "Projects," https://projects.worldbank.org/en/projects-operations/projects-list?os=0 *(last accessed 22 July 2021).*

The World Bank promotes a more localized approach to ensure inclusivity of its humanitarian and development efforts. It supports and facilitates community-level interventions aimed at building the capacities of local authorities and organizations. Recipients of Bank finance are government agencies and municipalities with high poverty incidence.

Development Finance Expectations

An uptick in financing is expected in the short and medium term. Bank support to the Philippines has shown an upward trend since 2015. The Bank has already committed $2 billion worth of support for upcoming projects, 42 percent of which is allocated to disaster risk reduction and management and resilience. Other sectors that will receive an increase in financing are agriculture (particularly for land titling and Mindanao development), education (for improving teacher effectiveness and competency), and government systems improvement.

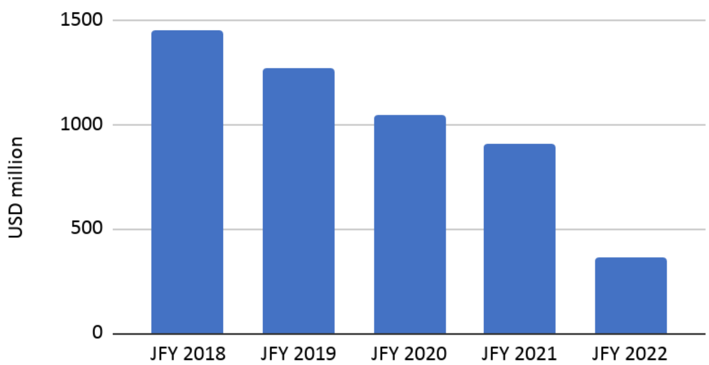
The increase is largely driven by funding to help the country cope with the effects of COVID-19 crisis. The Bank has committed to two projects, with a total value of $600 million, for COVID-related emergency response; they are geared toward providing medical supplies, increasing laboratories' capacity to conduct testing, implementing emergency cash transfer programs, and reforming disaster/crisis management.

Japan

Share of Philippines aid (2015–2018)	16 percent ($440 million annual average)
Aid projection	**Stable**
Top five sectors (2015–2018)	• Transport and storage • General environment protection • Agriculture • Other commodity assistance • Water supply and sanitation

The largest bilateral donor in Asia, Japan prioritizes self-reliant development, promotion of economic growth, and public-private partnerships. Shortly after the Second World War, Japan's key motivations for its official assistance program were economic and commercial interests. These interests continued to shape Japan's aid giving for more than three decades, but since the late 1980s Japan has minimized the business emphasis of its aid. Japan has recognized the vital importance of relationships of different countries in a globalized world, and while it has not discarded its economic interest, it has highlighted its commitment to international goals and development by extending more funding to humanitarian, human security, and poverty-reduction programs.[99] Defined in its 2015 Development Cooperation Charter, Japan's long-term development objectives include a strong focus on supporting sustainable and inclusive economic development in developing countries in order to achieve a peaceful and secure international society as well as to advance Japan's national interests.[100] Emphasizing quality growth, Japan aims to leverage its own experience, expertise, and technology to help developing countries eradicate poverty, often involving the Japanese private sector in development cooperation (Figure 24).

Figure 24: Annual Japan aid commitments, JFY 2018–2022



Source: Embassy of Japan in the Philippines, "Country Development Cooperation Policy for the Republic of the Philippines," April 2018, https://www.ph.emb-japan.go.jp/files/000393849.pdf (last accessed 1 May 2021).

Infrastructure and health are central in Japan's development aid policy, which has a strong geographic focus on Asia and increasingly Africa. Japan's development policy focuses on enabling sustainable growth through funding core infrastructure projects such as transportation, energy, and natural resource development, as well as expanding universal health coverage and managing infectious diseases through Gavi and the Global Fund. According to Global Fund, COVID-19 threatens the progress that the world has made against HIV, TB, and malaria. Hence, it is extending more than $1 billion in funding to help countries "fight COVID-19, mitigate the impacts on lifesaving HIV, TB and malaria programs, and prevent fragile health systems from being overwhelmed."[101] At the

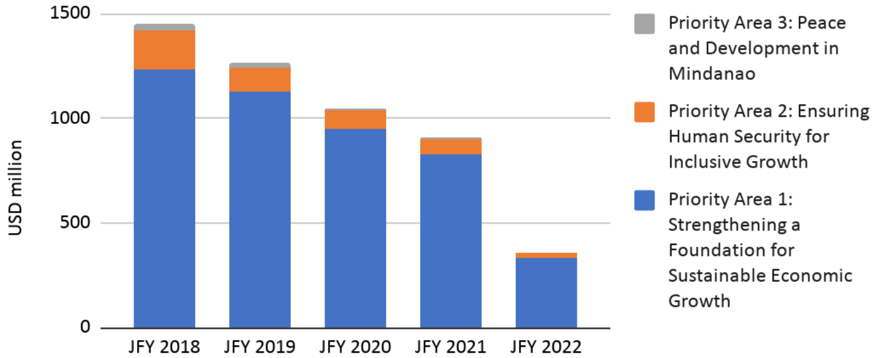
2019 Japan-ASEAN Summit Meeting, Prime Minister Shinzo Abe laid out Japan's plans to expand support for ASEAN countries in three areas: quality infrastructure development, green investment, and financial access and support for women.

Philippine-Specific Aid Policy

Japan is the Philippines' largest bilateral ODA partner, with total disbursements amounting to $562 million in 2018. The main implementing agency is the Japan International Cooperation Agency (JICA), whose work in the country spans more than six decades, with a long history of support for Philippine development priorities including infrastructure, health, human resources, agriculture, education, humanitarian assistance, and disaster relief.

Outlined in its country development cooperation policy, JICA efforts support three pillars of development: sustainable economic growth and poverty alleviation, overcoming vulnerability, and peace and development in Mindanao (Figure 25).[102] To these ends, JICA projects focus mainly on improving the investment environment, strengthening industries including manufacturing, maritime safety and security, disaster risk reduction and management, public administration systems, and social development.

Figure 25: Japan funding by priority area, JFY 2018–2022



Source: Embassy of Japan in the Philippines, "Country Development Cooperation Policy for the Republic of the Philippines," April 2018, https://www.ph.emb-japan.go.jp/files/000393849.pdf (last accessed 1 May 2021).

Aid Analysis

Mirroring Japanese engagement elsewhere in the world, infrastructure projects are a cornerstone of Japan's development assistance to the Philippines. Aligning with the priorities of the Philippine government's BBB program, Japanese development focuses especially on transport infrastructure such as railways, roads, and bridges. One main principle of Japan's ODA is non-intervention.[103] In theory, all of Japan's ODA is based on the needs of the recipients and must be requested by their respective governments. This principle upholds and supports the country ownership. Infrastructure development represents 80 percent of Japan's planned spending in the Philippines between 2017 and 2022. Japan's flagship projects in the Philippines are large-scale transportation systems such as the $2.27 billion North-South Commuter Railway Project, a 37.9-kilometer elevated commuter line connecting Manila to Bulacan province to the north. In 2018 JICA loaned $980 million for phase 1 of the Metro Manila Subway Project, the first in a series of deals that connects 30 kilometers of underground railway with 14 stations in Metro Manila.

Given the outsized focus on infrastructure projects, the majority of Japan's bilateral ODA is channeled through loans. Concessional in nature, with below-market interest rates and longer repayment periods, Japan's loans account for 94 percent of its development programming to the Philippines between 2017 and 2022, while technical cooperation and grants each constitute 3 percent. Japanese private companies are frequently contracted to implement JICA infrastructure projects, with some support from local subcontractors. Despite the relative shift in emphasis on aid motivation, the business and economic aspects of aid have remained significant for Japan. There is no explicit policy on the preference for Japanese private contractors, but through these contractors Japan has actively promoted Japanese ways, knowledge, experience, and technologies in their aid portfolio.

A significant portion of Japanese aid is also directed at overcoming vulnerabilities such as natural disasters and climate change, and securing and stabilizing peace in Mindanao. Nine percent of Japan's development programming is channeled toward disaster risk reduction and management, such as a $149 million loan for the Cavite Industrial Area Flood Risk Management Project. In line with overarching goals to support the peace process and socioeconomic development in conflict-afflicted areas, between 2017 and 2022 JICA earmarked $138 million for projects in Mindanao, including $18 million for technical cooperation on the Comprehensive Capacity Development Project for the Bangsamoro.

Japan's COVID-19 aid consists of medical supplies and technical assistance. With the COVID-19 health response more or less under control within its own borders, Japan has typically made in-kind donations of medical equipment such as personal protective equipment (PPE), testing kits, ventilators, medical instruments, x-rays, medical beds, and patient monitors. For instance, in February 2020 Japan donated 222,000 sets of PPE to Cambodia, Laos, Mongolia, and the Philippines. JICA also cooperated with UNICEF, USAID, and the Korea International Cooperation Agency to jointly donate $3 million worth of PPE to the Philippines. In July 2020, JICA donated new laboratory equipment and supplies to the Research Institute for Tropical Medicine (RITM) and San Lazaro Hospital to ramp up testing and boost the fight against COVID-19.

Financial aid from Tokyo comes from two large projects. In June 2020 Japan sent grant aid amounting to $18 million to the Department of Health, upgrading medical equipment in key hospitals and setting up laboratory surveillance sites across the country to augment the health sector's capacity to address COVID-19 and other diseases. The following month, the Philippines became the first-ever beneficiary of Japan's new crisis response emergency support program, a highly concessional loan aimed at helping countries struggling with the pandemic. The $469 million Crisis Response Emergency Support Loan was also the Philippines' first loan for direct COVID-19 response obtained from a bilateral partner. The package, earmarked for 2020 to 2021, will help cover budget expenditures made by the government to strengthen the Philippine response to the pandemic and revive the economy. Processed in less than a month and the quickest ever under Japan's ODA financing package, the loan is payable in 15 years, inclusive of a 4-year grace period with a fixed interest rate of 0.01 percent per annum.[104] According to JICA, the COVID-19 Crisis Response Emergency Support Loan is general budgetary support co-financed with ADB.[105]

Aid Expectations

Japan's focus on the Philippines is expected to continue due to the country's strong economic, diplomatic, and geographic ties to the region. Japan's use of loans in ODA is expected to increase further, especially because infrastructure continues to be a major priority area for Philippine development. In particular, JICA will continue to invest in disaster-resilient and transport-related infrastructure projects, such as road upgrading and earthquake and flood proofing. With an estimated $906 million committed in 2021 and large-scale programming slated until at least 2022, funding is likely to be sustained in the coming years. Funding data were estimated using funding commitments outlined in country rolling plans[106] published by the Ministry of Foreign Affairs of Japan as an annex to the Country Development Cooperation Policy[107] for its aid partnership with the Philippines.

United States Agency for International Development

Share of Philippines aid (2015–2018)	8 percent ($206 million annual average)
Aid projection	**Stable**
Top five sectors (2015–2018)	• General environmental protection • Basic education • Government and civil society • Emergency response • Post-secondary education

As the premier U.S. agency for delivering international assistance, the United States Agency for International Development (USAID) disburses half of U.S. development aid funding to the Philippines.

United States bilateral assistance followed the Trump administration's America First policy, which emphasized the mutual benefits of aid to both the United States and its partner countries, while highlighting self-sufficiency as an objective through USAID's Journey to Self-Reliance. Under this framework, USAID assessed partner countries like the Philippines on commitment and capacity to achieve self-reliance through Self-Reliance Roadmaps. The Biden Administration is likely to make significant changes in the aid policy framework.

Philippine-Specific Aid Policy

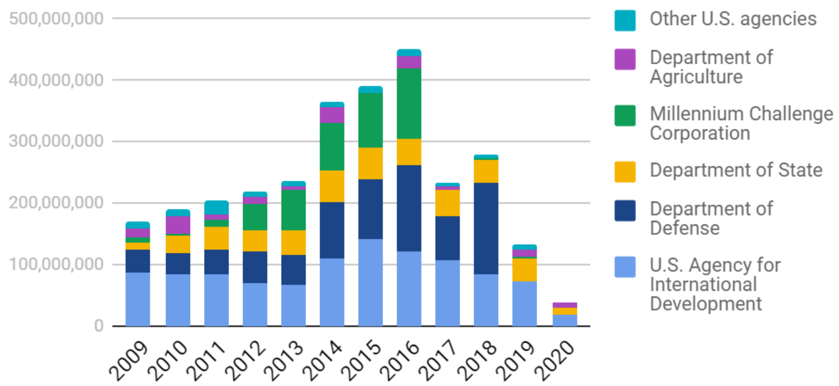
While USAID's development objectives align with the Philippine Development Plan, they do not share the same top priorities. The Philippines scored better than other low- and middle-income countries on five out of seven commitment metrics (open government, economic gender gap, business and investment environment, trade freedom, and environmental policy) and seven out of ten capacity metrics (government effectiveness, civil society and media effectiveness, education quality, child health, GDP per capita [PPP], ICT adoption, and export sophistication), but the country lags behind the average score in two commitment metrics (liberal democracy and social group equality) and three capacity metrics (tax system effectiveness, poverty rate [$5/day], and safety and security) in its Self-Reliance Roadmap.[108] This indicates that the country is closer to self-reliance than others with comparable levels of income. However, the Philippines is also the United States' oldest ally in the strategic Indo-Pacific region, and one of its closest; its ongoing development engagement is aligned with U.S. national interests while risks in the region persist. Guided by these metrics, USAID's current Country Development Cooperation Strategy for 2019 to 2024 for the Philippines identifies democratic governance strengthening, inclusive market-driven growth, and environmental and community resilience as its key development objectives. Although USAID objectives generally align with the Philippine Development Plan, governance strengthening and resilience building are not top priorities of the Philippine government.

Aid Analysis

The United States disburses all of its aid as grants, making it the largest grant donor to the Philippines. More than one-quarter of grants received by the Philippines is from the U.S. government. Two-thirds of these grants qualify as ODA and are for economic, development, and humanitarian assistance, while the rest are for military assistance.[109]

Besides USAID, several other U.S. government agencies provide development funding to the Philippines. Among the other agencies are the Departments of State, Defense, and Agriculture, as well as the Millennium Challenge Corporation (MCC), which had a five-year $433.9 million compact with the Philippines (Figure 26). This compact was not renewed in 2015 owing to concerns about human rights and the rule of law under the Duterte administration.

Figure 26: Annual U.S. aid disbursements by funding agency, 2009–2020



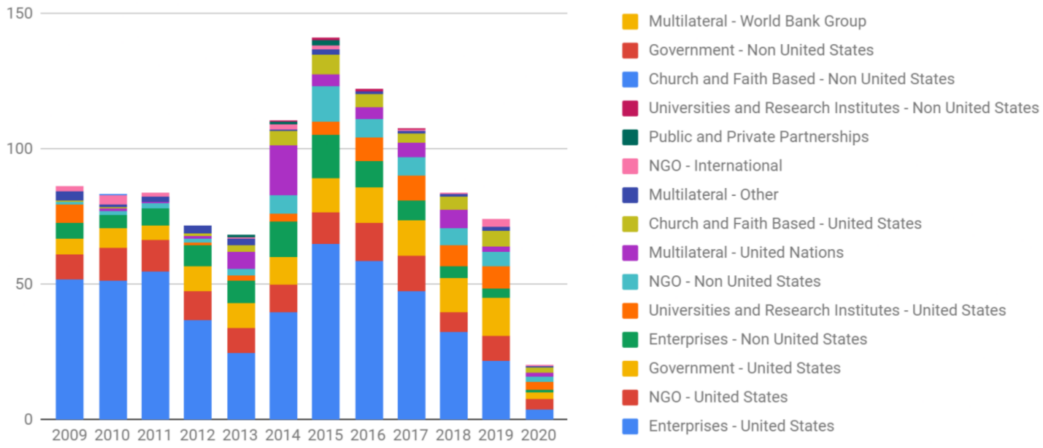
Source: United States Agency for International Development, Foreign Aid Explorer, https://explorer.usaid.gov/cd (last accessed 1 January 2021).

Note: 2019 and 2020 are partially reported.

Annual U.S. aid disbursements to the Philippines were rising until 2016, reflecting good bilateral relations between the United States and the Aquino administration. In this period, funding from USAID, the Department of Defense, and the MCC was increasing. However, funding fell off by 2017, at the start of the Duterte administration, with the loss of MCC funding and drops in USAID and Department of Defense funding.

Only 14 percent of disbursements to the Philippines have been channeled directly to local partners. During the Obama administration, USAID had a goal of providing 30 percent of program funding to local organizations in every country receiving US assistance.[110] The Trump administration did not carry that goal forward, however. Globally and in the Philippines, U.S. development aid programs continue to be implemented primarily by American for-profit companies and NGOs (Figure 27). During 2009-2020, almost half of U.S. aid to the Philippines was channeled through U.S. firms such as the Berger Group, the Education Development Center (EDC), Development Alternatives, Inc. (DAI), and Chemonics International. It should be noted that Chemonics International, a for-profit consulting firm, is the largest recipient of USAID funds globally. From 2018 to 2019, Chemonics International received more than $2.5 billion from USAID.[111] Another 12 percent of aid to the Philippines was channeled through U.S. NGOs, including the Asia Foundation, the American Bar Association, and the International City/County Management Association (ICMA). Local firms like Deloitte Touche Tohmatsu Limited, Philippine Business for Social Progress (PBSP), and the UPecon Foundation received 8 percent of disbursements while 5 percent went to locally registered NGOs such as the Gerry Roxas Foundation and Plan International's country office in Manila. Among these, Deloitte and Plan International are local affiliates of U.S. organizations.

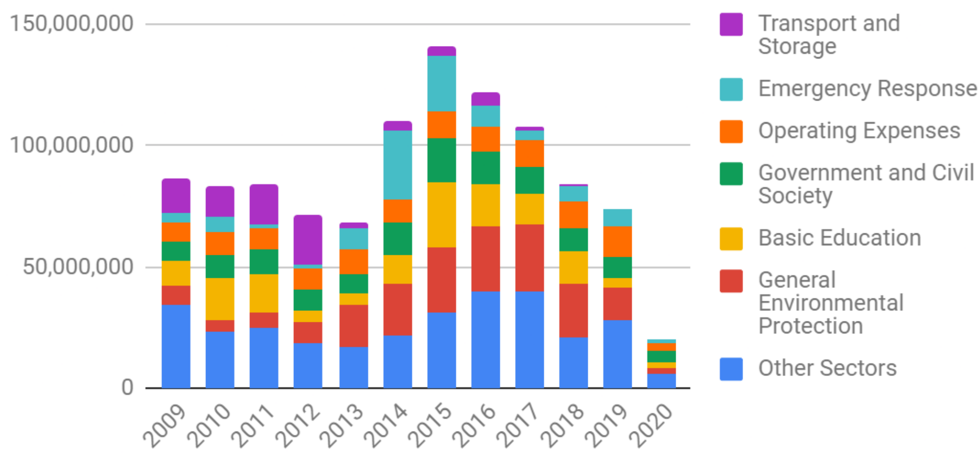
Figure 27: USAID funding channels, 2009–2020



Source: United States Agency for International Development, Foreign Aid Explorer, https://explorer.usaid.gov/cd (last accessed 1 January 2021).

In 2014 and 2015 aid rose in part because of U.S. assistance in response to Typhoon Haiyan (Figure 28). In 2014 the United States disbursed $12 million through the Crisis Assistance and Recovery project to the United Nations for emergency response. In 2015, $14 million was disbursed for REBUILD following Typhoon Yolanda (Haiyan), USAID's major multisectoral rehabilitation and reconstruction project implemented by the American firm the Berger Group.

Figure 28: USAID funding sectors, 2009–2020



Source: United States Agency for International Development, Foreign Aid Explorer, https://explorer.usaid.gov/cd (last accessed 1 January 2021).

Environmental protection is the top-priority sector for USAID, accounting for 18 percent of reported disbursements since 2009. Major activities include the $27 million Biodiversity and Watersheds Improved for Stronger Economy and Ecosystem Resilience (B+WISER) project implemented by Chemonics International and the $16 million Ecosystems Improved for Sustainable Fisheries (ECOFISH) project implemented by Associates in Rural Development (ARD). In 2007 Tetra Tech, a for-profit defense and engineering consulting firm, completed the acquisition of ARD.

B+WISER was designed to conserve biodiversity, reduce forest degradation, and contribute to disaster risk reduction through technology, capacity building, and multistakeholder partnerships. The program achieved all six of its targets during its six-year implementation period (2013–2018):

- 5,000,000 hectares (ha) of biologically significant areas with improved natural resources management;
- 584,000 ha of similar areas with improved biophysical condition;
- 8,778,278 metric tons (mt) of greenhouse gas emissions reduced, sequestered, and avoided;
- $41 million worth of investments mobilized for the program;
- 166,000 people trained in forest protection and biodiversity conservation; and
- 4,400 days of technical assistance provided.[112]

ECOFISH, on the other hand, was designed to improve the conservation of marine biodiversity by effectively managing habitat, fisheries, and marine resources. ECOFISH created the FishR, an online fisherfolk registration system and database. The program also strengthened partnerships with the community to promote conservation while increasing the incomes of fisherfolks and created an SMS-based anonymous reporting system for illegal fishing practices called 700DALOY.[113]

Basic education is another important sector for USAID, accounting for 13 percent of disbursements. The $40 million Basa Pilipinas project implemented by Education Development Center (EDC) is indicative of USAID support, done in close coordination with the relevant national agency to improve the early-grade reading skills of children, especially girls.

Aid Expectations

According to the OECD-DAC, the U.S. provided the largest ODA globally, amounting to $35.5 billion in 2020. This amount represents 0.17 percent of the said country's gross national income (GNI), significantly lower than the United Nations' ODA as percentage of GNI target of 0.7 percent.[114] For fiscal year (FY) 2021 (October 2020 to September 2021), overall U.S. foreign assistance funding was set at $62.7 billion. This includes $5.3 billion in emergency assistance, as well as the $4 billion allocation to Gavi, the Vaccine Alliance for COVID-19 vaccine distribution assistance.[115]

The new U.S. President, Joe Biden, puts emphasis on global development as a key pillar of his foreign policy–along with diplomacy and defense–as signaled by his inclusion of the USAID Administrator as permanent member of the National Security Council. Health systems strengthening in response to the COVID-19 crisis is central to the Biden administration's development agenda in an effort to restore the global health leadership role of the U.S. Other priorities include "supporting democratic reforms and digital development, strengthening US role in the multilateral system, and addressing inequalities in education exacerbated by the pandemic".[116] Pres. Biden also reversed many of the moves made by his predecessor such as the withdrawal from multilateral health initiatives and cutting of US funding to global health works. Under Biden, the U.S. rejoined the World Health Organization (WHO), promised to support the Access to COVID-19 Tools Accelerator (ACT-A), and participated in its COVAX Facility.[117]

The United States is the largest single country donor for COVID-19 aid, but more is needed. In response to the COVID-19 pandemic, USAID together with the Department of State launched the Strategy for Supplemental Funding to Prevent, Prepare for, and Respond to Coronavirus Abroad. To achieve this strategy, USAID is tailoring assistance based on country capacity and needs through the U.S. Government Action Plan to Support the International Response to COVID-19 (SAFER Action Plan). This plan aims to address needs in health care resources, COVID-19 case detection and surveillance, secondary impacts of the pandemic, and medicine and vaccine development and utilization. The U.S. government through USAID and the Department of State has pledged a total of $1.6 billion in additional funding[118] for COVID-19 and has disbursed $1.08 billion so far.[119]

USAID supported health information dissemination in the Philippines through the Philippine Department of Health's Healthy Pilipinas website and information campaign. Through the International Aid Transparency Initiative (IATI), USAID has also reported a total of $3.2 million in country-specific commitments for humanitarian assistance to the Philippines through three partner organizations: Action Against Hunger, International Organization for Migration, and Catholic Relief Services.

Australia

Share of PH aid (2015–2018)	2.5 percent ($64 million annual average)
Aid projection	**Decreasing**
Top five sectors (2019 pre-COVID-19)	• Education • Building resilience • Effective governance • Infrastructure and trade • Agriculture, fisheries, and water

In 2014, the Australian government launched *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*, which introduced a shift in development partnerships toward the Indo-Pacific region.[120] According to this document, the overarching goal of Australia's aid program is to promote its national interests by contributing to sustainable economic growth and poverty reduction. The geographic focus of Australia's development assistance has turned to the Indo-Pacific region, as Asia's rapid economic growth provides multiple opportunities for Australia's own economic expansion.

Consistent with its goals, Australia's ODA was directed primarily to private sector and human development. Its aim was to help economies grow by assisting businesses to become innovative and helping workers develop the knowledge and skills required by the private sector. Australia's bilateral aid was invested mainly in: (i) infrastructure and trade; (ii) agriculture, fisheries, and water; (iii) effective governance; (iv) education and health; (v) building resilience; and (vi) gender equality and women's empowerment. The Australian government ensured that its aid priorities were in line with the context and agenda of its development partners.

Australia's development assistance is built upon the 2017 Foreign Policy White Paper, which established trade and security in the Indo-Pacific Region as the country's two main aid priorities.[121] The Foreign Policy White Paper was a response to the need for new approaches and a redirection of geographic focus due to economic growth and power shifts in the region, primarily between China and the United States. It envisaged that Australia would gain from the expansion of economies within the Indo-Pacific region. It therefore called for the country to seize economic opportunities and ensure the security of the region, on which the prosperity of Australia and its partner countries in the Pacific and Southeast Asia depends. Accordingly, the paper also anticipated that Australia would be greatly affected by any economic downturns among countries in the Indo-Pacific Region.

Australia pivoted its aid program to minimize the impact of the COVID-19 pandemic in the Indo-Pacific region. The Partnerships for Recovery: Australia's COVID-19 Development Response detailed a new strategic framework to address COVID-19 and support the economic healing of Australia and the region, an approach aligned with the international objectives of the 2017 Foreign Policy White Paper.[122] Its aim was to contribute to a stable, prosperous, and resilient Indo-Pacific in light of the pandemic. It redirected the objectives of the aid program toward health security, stability, and economic recovery. It has also taken into consideration the reduction of aid levels due to the pandemic. The narrowing of resources has required the Australian government to approach aid distribution with flexibility. Notably, the framework identified the use of loans as an additional instrument to support economic recovery. The new policy also localizes Australia's assistance by working through government systems and local organizations, a shift from its previous reliance on private managing contractors for aid delivery.[123]

Philippine-Specific Aid Policy

In 2012 the Australian and Philippine governments signed a Statement of Commitment, which detailed the directions of cooperation between the two countries for the next six years.[124] The Australia-Philippines Development Cooperation Strategy 2012–2017 included assistance to (i) enhancing learning outcomes of elementary and high school students, (ii) improving transparency and accountability of local governments, (iii) building the capacity of civil servants, and (iv) addressing impacts of disaster and conflict to poverty reduction and sustainable economic growth. It envisioned a prosperous, stable, and resilient Philippines that provides opportunities to the poor and vulnerable to rise from poverty.

The Aid Investment Plan (AIP) 2015–2018 shifted the approach of the aid program from basic service delivery to improving the ability of the Philippine government to manage its resources.[125] That plan was based on *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*, which emphasized sustainable economic growth and poverty reduction as focus of Australia's development assistance. It was also informed by the study Growth Analysis of the Philippines (GAP), prepared by Australia's Department of Foreign Affairs and Trade (DFAT), which examined the factors affecting the inclusivity of Philippine economic growth. The issues and problems identified in the GAP served as basis for framing the objectives of the AIP. These aims included enhancing the foundations for economic growth, building stronger institutions, and improving conditions for peace and stability. The aid strategy was aligned with the national interests of Australia and the Philippine Development Plan 2011–2016. After the 2016 Philippine presidential election, the Australian government revised its priorities to support the 0–10 Point Socioeconomic Development Agenda of President Duterte's administration.

The Philippine COVID-19 Development Response Plans 2020–2021 and 2021–2022 were part of Australia's new development policy designed to help countries, particularly those in the Indo-Pacific region, fight the COVID-19 pandemic and support their economic recovery.[126] The plans recognized the Philippine situation, which involved poor health system capacity, high urban density, and growing inequality. They aimed to improve the adequacy of the health system to deal with the demands of the crisis. The Australian government prioritized helping the Philippines deal with threats to security, increase educational investments, and strengthen its COVID-19 response. It has also engaged with businesses about digitalization and with the Philippine government regarding its infrastructure program.

Aid Analysis

From 2013 to 2019, Australian ODA commitments to the Philippines were composed entirely of grants, and Australia was the second-largest grant donor to the Philippines during this period (Table 11). In terms of total commitments, Australia was consistently among the top eight donors in the Philippine ODA portfolio from 2013 to 2019. Notably, total ODA had decreased significantly by 2019 compared with its 2013 level.

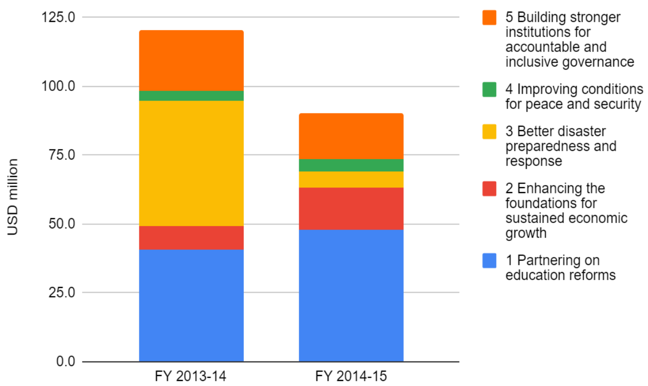
Table 11: Australia's ODA commitments to the Philippines, 2013–2019

Year	Australia's rank among grant donors	Grant amount*	Australian grants as % of total grants	Australia's rank among total ODA donors	Total ODA amount*	Australian ODA as % of total ODA
2013	2	891.29	30.06	4	891.29	7.39
2014	2	587.02	18.43	7	587.02	4.09
2015	2	567.09	18.59	5	567.09	3.61
2016	2	823.78	24.29	5	823.78	5.28
2017	2	648.70	26.25	5	648.70	4.39
2018	2	476.19	19.82	6	476.19	2.82
2019	2	289.63	17.65	8	289.63	1.34

Source: National Economic and Development Authority (NEDA) (2020), Official Development Assistance, https://www.neda.gov.ph/official-development-assistance-page/ (last accessed 1 May 2021).

Total disbursements for initiatives under Objective 3, *Better disaster preparedness and response*, had the largest share for FY 2013–2014, while initiatives under Objective 1, *Partnering on education reforms*, made up the majority of the ODA expenditures for FY 2014–2015 (Figure 29). In 2013 Australia granted response and recovery assistance addressing three major disasters: Typhoon Haiyan, the 7.3 magnitude earthquake in Bohol, and the Moro National Liberation Front seizure of Zamboanga City.[127] In 2014 its investments in education resulted in the construction of 1,047 classrooms.[128]

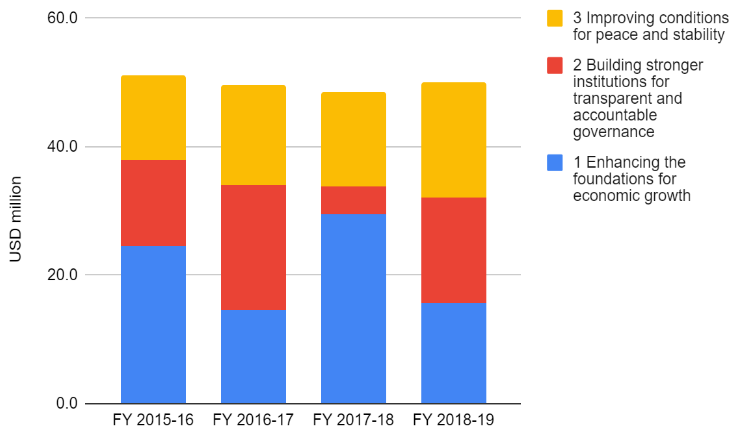
Figure 29: Australia's total ODA expenditure by bilateral aid program objective, FY 2013–2014 and 2014–2015



Source: Department of Foreign Affairs and Trade (DFAT), Aid Program Performance Report 2014–15: The Philippines (Canberra: DFAT, 2015).

During 2015 to 2019, total disbursements under Objective 1, *Enhancing the foundations for economic growth*, had the biggest share of Australia's total ODA (Figure 30). This was followed by expenditures under Objective 3, *Improving conditions for peace and stability*. It was during this period that the aid program pivoted from basic service delivery to improving the government's management of resources. Some of the related initiatives under Objective 1 were the Strengthening Public Private Partnership Program ($22.4 million, 2011–2018), the Basic Education Sector Transformation Program ($67.3 million, 2014–2019), and the Disaster and Climate Risks Management Initiative ($35.1 million, 2006–2020). Initiatives under Objective 3 included the Australian Partnerships for Peace Program ($9.0 million, 2017–2020), Australia–World Bank Support to Task Force Bangon Marawi ($1.7 million, 2017–2019), and Education Pathways to Peace in Conflict-Affected Areas of Mindanao (PATHWAYS) (estimated $67.3 million, 2017–2026).[129]

Figure 30: Australia's total ODA expenditure by bilateral aid program objective, FY 2015–2016 to 2018–2019



Source: Department of Foreign Affairs and Trade (2016, 2017, 2018, 2019), Aid Program Performance Report for 2015–16, 2016–17, 2017–18, 2018–19: Philippines, Canberra: Department of Foreign Affairs and Trade.

In terms of grants financial performance, the average utilization rate of Australian grants from 2013–2019 was 58.17 percent (Table 12). Australia was consistently ranked second to the United States in terms of the utilization rate of grant funding. It was also second to the United States in terms of grant level during the same period.

Table 12: Financial performance of Australian ODA grants to the Philippines

Year	Grant amount (million USD)	Utilization (million USD)	Utilization rate (%)	% of total utilization	Rank (% of total utilization)
2013	891.29	440.08	49.38	28.29	2
2014	587.02	312.43	53.22	19.55	2
2015	567.09	402.27	70.94	21.35	2
2016	823.78	437.61	53.12	20.53	2
2017	648.7	394.17	60.76	23.61	2
2018	476.19	318.68	66.92	19.82	2
2019	289.63	153.09	52.86	18.33	2

Source: National Economic and Development Authority (NEDA) (2020), Official Development Assistance, https://www.neda.gov.ph/official-development-assistance-page/ (last accessed 1 May 2021).

Aid Expectations

Australia focuses on assisting the Indo-Pacific region with COVID-19 interventions and economic recovery in line with its policy Partnerships for Recovery: Australia's COVID-19 Development Response.[130] In particular, its strategy for the Philippines is described in the Philippine COVID-19 Development Response Plans 2020–2021 and 2021–2022. Its estimated allocation for the Philippines in 2020–2021 is $47.4 million.[131]

5 CONCLUSION

ODA has been and will continue to be an invaluable and dependable source of financing for development in the Philippines. Throughout the decades, ODA has served as a stable source of significant funding for the government's infrastructure and human development programs and projects. Despite going through several periods of financial instability, partly owing to uncontrolled fiscal deficits and excessive government borrowing, the Philippines was able to introduce and sustain reforms that helped it achieve the sound macroeconomic fundamentals that it currently enjoys. Earlier investments in the country's physical and human capital have also translated into rapid and continuous economic growth, even as several deeply rooted development challenges such as poverty and inequality remain—exposing inadequate efforts to promote equity and inclusion in government programs and projects. Exacerbated by the onset of COVID-19, which brought growth to a halt, these concerns could be addressed partly through sound fiscal policy together with the strategic and inclusive utilization of ODA. Having shown solidarity in swiftly extending assistance to developing countries devastated by the pandemic, the donor community demonstrated that ODA could be a reliable funding source even during crisis situations.

Recovering from the effects of the pandemic as quickly as possible is crucial for returning to the development path. Given the present limitations of domestic funding sources, the Philippine government should optimize the use of ODA in strengthening its health-related COVID-19 response and rehabilitating the economy. As ODA once again becomes more prominent in development financing, the Philippine government should be sure to invest in lasting development outcomes that will allow the country to once again pursue rapid, sustained, and inclusive economic growth, eradicate poverty, and move to high-income status.

Residents of Quezon City reading flyers containing relevant information about COVID-19 and essential tips on how to cope with the enhanced community quarantine as they line up to enter a market as the local government strictly imposes social distancing in public places. (Photo: IDEALS)

6 RECOMMENDATIONS

Transparency and accountability become even more important as the government disburses ODA funds in support of its COVID-19 response. The emergency powers given to the president and the significantly larger allocations received by several agencies will make it necessary to assure the public that resources are spent efficiently and that checks and balance remain in place. Apart from preventing waste and possible malversation, transparency in the use of funds will bolster people's trust and confidence in the government and may increase their willingness to do their part in COVID-19 containment and rehabilitation efforts. As one of the oldest democracies in Asia and the world, the Philippines has a reasonably sophisticated system of checks and balances. The country would still benefit, however, from the vigilance of the international community in monitoring the use of government funds as it grapples with the pandemic and the erosion of some of its democratic institutions in recent years. The urgency of responding to the pandemic has also highlighted inefficiencies in procurement and other administrative processes of the government. These shortfalls should be addressed to enhance the absorptive capacities of agencies and maximize the utilization of ODA funds.

Moving forward, ODA utilization should be aligned with and monitored against the achievement of development targets under the AmBisyon Natin 2040, the Philippine Development Plan (PDP), and the Sustainable Development Goals (SDGs). The Philippine government should strengthen its monitoring and evaluation capacity to ensure that financial resources, including ODA, are used efficiently and are being translated to desired outcomes. Monitoring and evaluation data could also be used for evidence-based decision making, especially in identifying what fiscal policy instruments to use in pursuing various development purposes. Matching resources to development goals identified in the AmBisyon Natin 2040, the PDP, and the SDGs—to which the Philippine government and its development partners have declared their commitment—would ensure that ODA and other funds are spent in a way that responds to the needs and priorities of the country.

For 2021 the Philippine government has set an 85:15 borrowing mix in favor of local sources. This policy is meant to support the domestic debt market, which has been heavily affected by the pandemic, and to protect against possible foreign exchange fluctuations and maintain price stability. It is advisable to continue with this policy as a direct response to the effects of COVID-19 for as long as there are uncertainties in the timeline for the country's economic recovery. As the economy stabilizes and returns to a higher growth trajectory, it is recommended that the government return to its previous 75:25 deficit financing policy. This shift will help avoid crowding out private borrowing and minimize the risk of worsening inequality in a country where only a small proportion of the population are net savers. The government should also make sure that future interest repayments will not displace much-needed investments in agricultural development and social services.

The Philippines was expected to have a record high fiscal deficit in 2020, given that the budget gap ballooned to $21.8 billion in the first 11 months of the year. This situation follows budget shortfalls of 3.2 percent and 3.5 percent in 2018 and 2019, respectively. While the country's macroeconomic fundamentals are now significantly more robust, this deficit is more serious than the one experienced during the mid-2000s. It is not clear whether this recent widening of the deficit will lead to instability similar to what the country went through in the previous decade. Should the deficit approach unmanageable levels, the government may consider pursuing fiscal consolidation in the medium term after the situation has normalized. The government may even consider introducing a debt brake, wherein expenditure in excess of a stipulated amount for one economic cycle is recouped within a specific period, e.g., in the next three years.[132] Exceptions to this policy may be allowed as long as they are clearly defined. A predetermined set of sanctions should also be in place to ensure that the policy can be enforced. While at first glance a debt brake seems to constrict fiscal space, its proponents argue that it actually expands the government's room for maneuver by preventing excessive debt and allowing fiscal policy more room to adapt.

Donors may also follow the example of Australia, the United States, and—as regards its assistance in combating the pandemic—Japan on emphasizing grants in providing aid to the Philippines and other middle-income countries that are recipients of their ODA. Many of the world's poor live in middle-income countries such as the Philippines and India. The COVID-19 pandemic has likely reversed gains and exacerbated poverty in these countries. Donors can help address poverty and inequality—consistent with SDG 1 (No Poverty)—by using grants as they extend development assistance to recipient countries recovering from the pandemic. Grants will also allow the governments of these countries to focus their efforts on economic rehabilitation in the medium term without fear of sacrificing future fiscal maneuverability.

As emphasized by Japan in its ODA policy, aid should focus on building self-reliance of recipient countries. Efforts by Australia, the World Bank, and, recently, Japan to engage local stakeholders and support community-level interventions should be continued and expanded. Donor countries should continuously adopt measures to untie aid by gradually shifting to engaging local consultants and enterprises. Reliance on private contractors from the donor country should be minimized over time. The United States, for instance, should increase the emphasis on localization in its development aid by moving toward its previous goal of channeling 30 percent of mission program funding to local organizations. Toward this end, technical assistance should continue to focus on building the capacities of local stakeholders, including the private sector, especially micro, small, and medium enterprises. Development assistance should also promote gender equality and the economic empowerment of women. Indigenous ways and culture must be considered and respected in designing and implementing development interventions.

As the economy recovers and the Philippines returns to a high growth path, aid should be directed to strengthening the government's capacity to raise revenues. The Philippines has demonstrated that with enough political will and well-defined goals it has the capacity to implement reforms with lasting development impacts. For instance, recent reforms improved the country's tax effort to 14.5 percent of GDP in 2019, just before the COVID-19 pandemic struck. This was its best performance since 1997, when the country achieved a tax-to-GDP ratio of 15.3 percent.[133] In the near term, the priority should be on rehabilitating the economy by building the capacity of business enterprises and retooling and retraining the labor sector. After revitalizing the economy, the government should refocus its attention and continue its reforms to taxation and revenue administration to ensure that it has enough resources to sustain its development efforts. Emphasis should be given to progressive tax policies rather than regressive and less transparent indirect taxes, as inequality remains a major hindrance to achieving inclusive development and poverty alleviation. Donor countries and institutions should support these interventions to allow the Philippines to become once again an able partner in pursuing global prosperity.

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